Vol. 3, No. 1
January/February 1994
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On State and Local Issues

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EDUCATIONAL CHOICE

Why It Won't Wait

State legislators nationwide have entered yet another session where they will be asked to "do something" about the continuing crisis in public education. With education reform high on the legislative agenda, it may be valuable to review the *facts* behind all the rhetoric and politics. Information from the National Assessment of Educational Progress (NAEP) give us a picture of why public schools perform as they do and what kinds of reforms hold the greatest promise.

The 1989-90 NAEP data allowed analysts, for the first time, to break out by state student achievement on proficiency tests. Since data on key funding and governance questions are also available on a state-by-state basis, combining the two data sets allows us to estimate the effects of four variables on student achievement: per-pupil spending, district size, school size, and percent of funding provided by state governments. The results of this analysis appear in the four graphs on page 3.

Per-Pupil Spending

After controlling for the socioeconomic status of a state's student population, I found the relationship between state-average per-pupil spending and student achievement to be statistically *insignificant*. In other words, spending more money has not, on average, produced better student test scores. The very weak relationship that *does* exist, perhaps surprisingly, is inverse: As per-pupil spending increases, student achievement falls. The failure of more money to improve student achievement wasn't the result of taxpayers not trying hard enough: During the half-century between 1940 and 1990, inflation-adjusted per-pupil spending rose more than 500 percent, from $878 to $5,292.

School District Size

In contrast to the results regarding per-pupil spending, the data show a *strong relationship* between school district size and student achievement. Students in larger school districts consistently performed more poorly than did

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Tools For Political Survival

Potshots

■ Frustration is when the same snow that covers the ski slopes makes the roads to them impassable.

James Holt McGavran

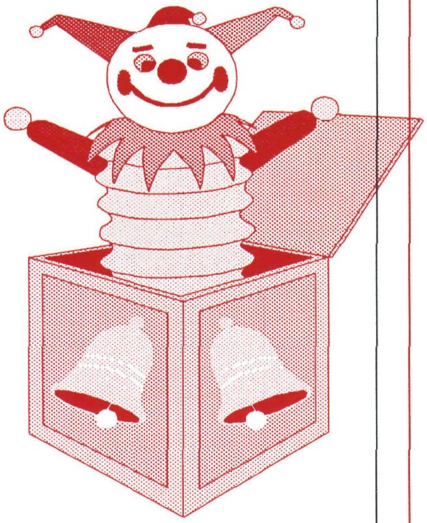
■ People who live to a ripe old age never expended any energy resisting temptation.

■ Thanks to the Interstate Highway System, it is now possible to travel across the country from coast to coast without seeing anything.

Charles Kuralt

■ Whatever you have, spend less.

Samuel Johnson



■ The truth must be repeated again and again because error is constantly being preached around us.

Johann Wolfgang von Goethe

■ Scholarship: The attempt to exhaust the subject by first exhausting the reader.

■ I support an airbag in every car — unless a senator is on board. Then it becomes redundant.

Illinois Rep. Bob Michel

■ A road map will tell us everything we want to know except how to fold it up again.

NEWS FROM THE Heartland

BY JOSEPH BAST, PUBLISHER

Joe's nephew, Taylor Thomas Bast

PolicyFax, Heartland's new information service, is growing at a phenomenal rate. Your choice of research and commentary now encompasses over 1,500 pages provided by six think tanks. Besides The Heartland Institute, participating organizations include the Cato Institute, Competitive Enterprise Institute, Citizens for a Sound Economy, the Independence Institute, and Alabama Family Alliance.

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Michael Tanner has joined *Intellectual Ammunition* as contributing editor on health care. Mike is Director of Health and Welfare Studies at the Cato Institute, where he has authored several policy reports on health care issues. He is also author of two books on health issues, *Dollars and Doctors: State Health Policy in the 1990s*, and *The Politics of Health: A State Solution to the AIDS Crisis*. You'll find his first column for *IA* on page 12.

Health care reform, the subject of last issue's cover story, continues to dominate public policy debate in Washington D.C. I recently had the privilege of speaking on a panel with Dr. Paul Ellwood, president of the Jackson Hole Group and an architect of the notion of managed competition. Dr. Ellwood was quite severe in his criticism of the Clinton Administration. According to Ellwood, the "health alliances" have been given far too many powers, the plan is far too bureaucratic and intrusive, and conspicuously missing from the Clinton plan are the caps on employer-provided health insurance needed to discourage over-reliance on health insurance.

To hear the father of managed competition speak so critically of the Clinton plan preshadows the rocky road ahead for the President. Dr. Ellwood should be commended for sticking to his convictions, even if this means criticizing a President who claims to be implementing his ideas. ■

Intellectual Ammunition is published by The Heartland Institute, a nonprofit, nonpartisan research and education organization. Subscription $98.00; single issue $9.00

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EDUCATIONAL CHOICE

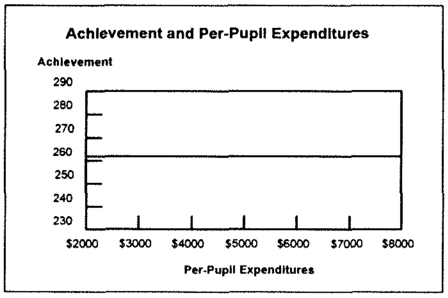
Why It Won't Wait

(continued from page 1)

students in smaller districts. During the past fifty years, the number of school districts in the U.S. fell 87 percent (from 117,108 to 15,367), while the average number of students enrolled in each district increased by more than 1,100 percent. This trend appears to have hurt student achievement.

Size of Schools

I found student achievement also was negatively related to school size. States with smaller average school sizes — such as Iowa, Wisconsin, Idaho, and Oregon — outperformed states with very large schools — such as California, Florida, and Hawaii — by a wide distance. Once again, this finding suggests that a past trend has hurt student achievement: The number of elementary and secondary public schools fell 69 percent in the last 50 years; their average enrollments rose more than 414 percent, from 127 to 653 students.

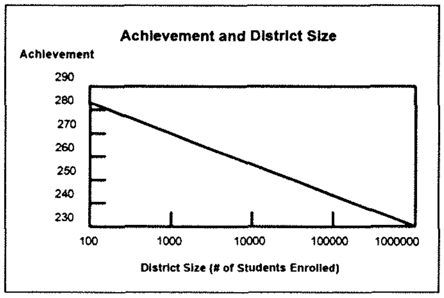


State Share of Funds

Finally, the NAEP data suggest that student achievement falls as the percent of school funding provided by state governments rises. Nebraska, Oregon, and Nevada reported the lowest state shares of school funding and the highest student scores. Kentucky, Alabama, New Mexico, and Hawaii — which rely much more heavily on state aid to finance schools — reported the lowest test scores. *Reliance on local funding is a strong predictor of superior student achievement.*

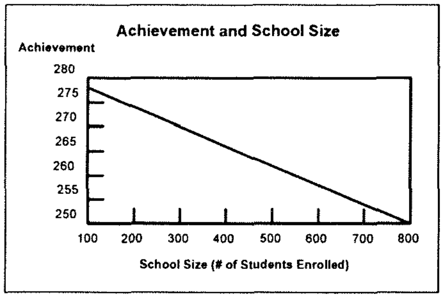
Comments

The U.S. currently ranks first in the world among major industrialized countries in per-pupil spending. Yet for several decades U.S. students usually have ranked near the bottom of surveys of student achievement in industrialized countries. Clearly, spending even more money is not the most promising "reform" on the table, even though it may be the best represented.



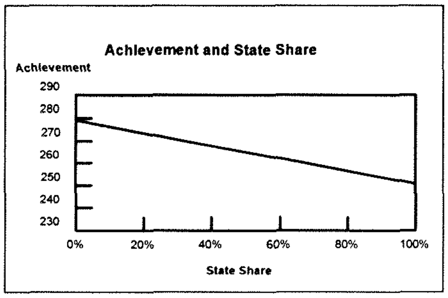
The research literature on what works in education overwhelmingly suggests that the factors most associated with effective education are *local* — school- and neighborhood-based. Yet increasingly, the control and financing of education have been shifted outside of the local community.

The new data suggest that the most promising direction for future reforms is decentralization: smaller school districts, reducing average school size, and increasing reliance on local rather than state (or federal) funding. Each of these reforms is more likely to improve student achievement than increasing spending or continuing current trends toward centralization.



Implementing reforms that have a decentralizing effect will weaken the established interest groups that now effectively control education policy. Putting authority and funding decisions into local hands makes taking the further step of parental empowerment smaller and more easily taken. This natural progression from highly centralized organizations to more and more decentralized organizational forms creates opportunities for parents to acquire the skills and confidence they need to be effective consumers of education.

The education status quo is still very powerful and deeply entrenched; this is the message from California. But the message from thousands of schools across the country is that decentralization, and perhaps educational choice, offer the best way to improve student achievement.



# # #

Dr. Herbert J. Walberg is Research Professor of Education at the University of Illinois at Chicago. This article is based on his "Losing Local Control of Education: Cost and Quality Implications," Heartland Policy Study No. 59, released November 22, 1993 and available for $10 from The Heartland Institute.

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Over 40 documents on Education — including a 10-page *Heartland DataFile* on the relationship between spending and student achievement — are currently available through ***PolicyFax***. To request your free directory of Education publications, just call 510/208-8000 and choose item #3 from the main welcome message. Request topic directory #21.

Life & Liberty

Michigan Stumbles on School Reform

By David L. Littmann

Life & Liberty: A forum for the Directors and Governors of The Heartland Institute to share their personal philosophies and life experiences.

Most taxpayers understand that tossing more money at a problem doesn't solve it. But in the wee hours of the morning, when a legislator's mind is torn between sleep and enjoying the holidays with family, this nearly axiomatic proposition isn't as apparent. The result? Rather than real education reform and lower tax burdens, legislators in Michigan will greet citizens in the new year with just the opposite.

On Christmas Eve, the Michigan Legislature approved a measure that will have taxpayers vote on a proposal that would raise the sales tax, among other items, to finance public education. If voters defeat this proposal, education will be financed through an increase in the state income tax and the Single Business Tax, among other things.

Given Lansing's latest handiwork, wealthier public school districts will be redistributing income and education dollars to other districts without having any control or direct accounting for their ultimate effectiveness. Throwing at least another 5 percent more into the pot, as the latest measures do, would hold even fewer feet to the fire and discourage better school districts at the same time.

Missing from the school package is real reform. Reform means nothing if parents are not more actively engaged in their students' educations; no one disputes this premise. The best way to involve parents is to open their children's education options through greater competition among public, private, parochial, and home schools.

Reform means nothing if parents are not more actively engaged in their students' educations.

This objective can be achieved in tandem with tax relief. Lowering both income and property taxes, much like the Michigan Senate had proposed, financially empowers families to select from a greater variety of educational alternatives. Returning purchasing power to households is the best insurance that Lansing would not dictate to parents the rules of the game.

When the Legislature voted earlier this year to eliminate property tax funding for school operations, it had the advantage of making the K-12 education selection process less geographically dependent. It also provided an opportunity to avoid the controversy about "church versus state."

After all, empowering families to choose any school via a state-financed voucher — where tax monies first flow to Lansing and then back to taxpayers — is a safer route to school reform than what stares at voters now. The U.S. Supreme Court has decided that no conflict exists between church and state when taxpayers directly receive state funds instead of the schools. This position is consistent with the GI bill, in which taxpayer money or grants follow students to the college of their choice.

Herein, perhaps, lies Michigan's greatest impediment to real K-12 reform. Michigan's Constitution clearly does not allow parents to use state funds to send their child to a private school. In fact, parental choice even among *public* schools in other districts does not promise to increase much, if at all, under the proposals the Legislature passed.

What we need is to change Michigan's Constitution to enable a GI-bill-type option for our families and students. Let the schools compete for the opportunity to educate Michigan's youth!

We must ask, is it more money or choice that separates Michigan's students from a more excellent future? My suspicion is money will help only where competition has cleared the way, sorting out the inferior providers from the pack.

# # #

David Littmann is senior economist at Comerica Bank and Michigan president of The Heartland Institute. This essay originally appeared in a slightly different form in *The Detroit News*.

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Organizations

ROUTING REQUEST

Health Care Reform: What Role for Private Initiative?

The widespread public concern that America's health care system needs major reform has been used by the Clinton Administration to justify the creation of a new government entitlement program that could become a patient's nightmare.

In doing so, Clinton ignores the fact that America has many private institutions that could help solve our health care problems.

The historical record of voluntary accomplishments in the United States is simply phenomenal. Private charities have long been active in the health field. In 1989, the Internal Revenue Service's Master File listed 23,798 nonprofits involved in general and rehabilitative care. There were also 6,396 mental health charities, 7,059 organizations devoted to disease research, and 1,533 general health research institutes.

That little thought has been given to the role they can play is testimony to the failure of policymakers to think creatively about the role of private initiative. Health charities could play a far greater role in the battle against disease by redirecting their considerable resources to areas where they are most needed. Charities are able to mobilize and direct the efforts of millions of volunteers. Aside from their role in fundraising campaigns, volunteers are ideally suited to:

- ■ Aid disease victims through patient services, such as providing transportation to medical facilities; loaning medical equipment and supplies; arranging support groups to provide information and comfort to disease victims, their families, and friends; and offering subsidized or free housing to patients receiving treatment away from their homes.
- ■ Provide community services, including disease screening, information about diseases and treatment options, and telephone "hotlines" to direct those needing assistance.

> **Government action is not the only — and probably not the best — approach to the nation's health care crisis.**

Free Clinics

Voluntary health agencies could also greatly relieve the nation's health care crisis by cooperating with free community clinics that aid the medically indigent.

Kevin Kelleher, a physician who volunteers at the Bradley Free Clinic in Roanoke, Virginia, questions the notion that government action is the only — or even the best — approach to the nation's health care problems.

According to Kelleher, there are many reasons to expect voluntary free clinics to work. "By decentralizing indigent care, no one physician carries the majority of the burden of unreimbursed care. Bad-debt patients are fewer and practice overhead is lowered. Abuse of emergency departments is lessened. Volunteers are recognized and honored by their communities. The patients themselves recognize the effort, and they are less likely to abuse resources than under an entitlement."

The Bradley Free Clinic is one of about 140 free clinics now operating in the nation. The facility is staffed entirely by volunteers and, in 1991, treated 3,115 individual patients who made 6,469 visits. More than 10,000 prescriptions were filled at no cost to patients. About 30 percent of Roanoke's physicians and dentists volunteer with the clinic, and dozens more give money or take referrals for specialized care. Operations are supported by gifts from individuals, churches, civic groups, foundations, and the United Way. Modest support is given by local governments (a total of $26,528 in 1990). There has never been a shortage of health professionals willing to volunteer, and no eligible patient has been turned away.

Because they serve local patients, clinics can tailor their operations to meet community needs with a minimum of bureaucracy, which is unavoidable in government-mandated — especially federal — programs. During its 18-year history, the Bradley Free Clinic has been such a success that it created the Free Clinic Foundation of America, a charity that promotes creation of new free clinics throughout the country. FCFA has helped start eight new clinics, and another 12 are now being organized.

Community clinics show that medical professionals and volunteers can provide care to the indigent without federal funds and without the red tape common to government programs.

Capital Research Center

Information on this page was provided by Thomas J. DiLorenzo, a Senior Fellow at the Capital Research Center. For more information, contact the Capital Research Center, 727 15th Street NW, Eighth Floor, Washington, DC 20005-1599; phone 202/737-5677, fax 202/737-5692.

Education

ROUTING REQUEST

After Communism, Choice — But Not in the U.S.

School Choice in Russia

> *"The Russian Federation has embarked upon perhaps the boldest education reform program in the world."*
>
> Dr. Charles Glenn
> Boston University School of Education

Under Communism the schools of Russia were subject to a high degree of control by the state — much the same as in the United States. But the new laws of post-communist Russia allow almost anyone to start a school and receive the same funding as the state schools. This is the very goal that drives the proponents of school choice and charter schools in this country.

Government oversight is limited to health and safety. There is to be no interference in curriculum or philosophy in the new schools. Schools are allowed to charge tuition to supplement government tax support. Each school may maintain its own bank account and spend the funds according to its own educational guidelines.

By late 1992 there were 200 new schools in Moscow alone. In the first year, one American Christian group helped start 100 schools in the country. Parents and students are enthusiastic about the results.

A Lawsuit to Keep Your Eyes On

Miller et al. v. Benson and the Wisconsin Department of Public Instruction. Like most lawsuits, the name alone is enough to put people to sleep. But this one may wake a lot of people up before it's over. It asserts that if Milwaukee is going to have a school choice program, then it *must* allow religious-affiliated schools to participate.

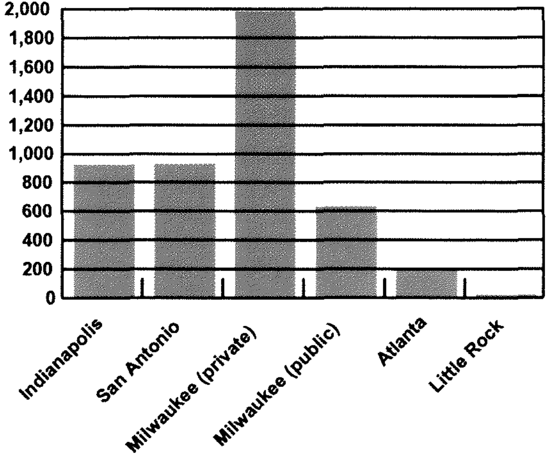
Since 1990 the State of Wisconsin has been willing to award $2,600 vouchers to up to 1,000 low-income children in Milwaukee so that they can attend nonpublic school. The law says, however, that it must be a non-sectarian school.

Cynthia Miller wants for her son what every parent wants — a good education in a safe environment. She sees that education available, just down the street from home, at St. Rose Catholic School — and she would like to enroll her son Marquelle there. She qualifies for Milwaukee's $2,600 voucher, more than enough to cover the $1,325 tuition, but the law prevents her from making this choice, even though it would be in Marquelle's best interest.

In all of Milwaukee only 13 non-sectarian schools have been found to participate. Meanwhile, more than 80 schools are prohibited from participation: they are Catholic, Protestant, Muslim, or Jewish.

The Landmark Legal Foundation has come to the aid of Mrs. Miller and other parents who want full educational choice. In a suit filed in federal court in early October, Landmark asserts that the Milwaukee program violates the First Amendment of the U.S. Constitution, specifically the section that says "Congress shall pass no laws . . . prohibiting the free exercise of religion."

Number of Students Using Education Vouchers in 1992
(public and private voucher programs)



The key argument, according to Landmark, is that vouchers are aid to individuals and not to institutions. Vouchers used at religious schools are a matter of individual choice and not of government selection; there is no conflict with "separation of church and state." On the contrary, if a program allows individuals to use vouchers at any school *except* a religious one, that program has violated the individual's right to free exercise of religion.

CENTER FOR REBUILDING AMERICA'S SCHOOLS

Information on this page was provided by Thomas Hetland, FSC, Executive Director of the Center for Rebuilding America's Schools. He is a member of the Christian Brothers and was for twenty years a high school teacher and administrator. For more information, contact Thomas Hetland, the Center for Rebuilding America's Schools, 800 East Northwest Highway #1080, Palatine, IL 60067; phone 708/202-3060, fax 708/202-9799.

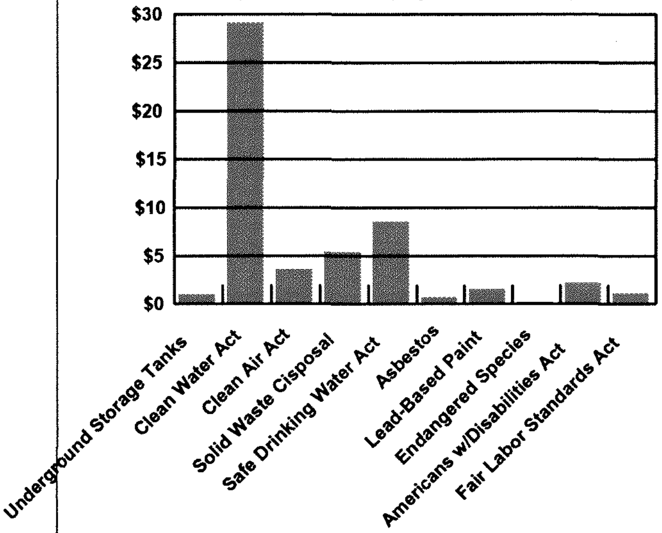
Seeking Cabinet Status, EPA May Get Cost-Benefit Analysis

EPA Cabinet Status Delayed

Efforts to make the Environmental Protection Agency the 15th Cabinet office were stalled until early 1994. Before the Congressional recess, House Minority Whip Newt Gingrich (R-GA) distributed a letter urging colleagues to vote against the plan. At the heart of the dispute was concern over EPA's failure to employ cost-benefit analysis for proposed regulations. The Senate had included provisions to require such studies when it passed the EPA Cabinet bill in May 1993.

When Democrats in the House dropped the cost-benefit requirements, several Republican lawmakers decided to withdraw their support for the measure and even to lobby actively against it. Rep. John L. Mica (R-FL) was so disturbed by the actions that he quickly established an opposition movement. It is now politically uncertain whether the EPA can be raised to the Cabinet without inclusion of the cost-benefit language. Nevertheless, it is economically certain that EPA should be required to conduct realistic assessments of all regulations it promulgates. In fact, cost-benefit analysis should be applied *retroactively* to all current regulations, especially the Endangered Species Act and Superfund. Both would fail the test.

Estimated Costs to Cities
Unfunded Federal Mandates
(FY 1994 - 1998 projected, in billions)



Unfunded Federal Mandates

Even if EPA is required to conduct cost-benefit studies, don't bet your house on the accuracy or honesty of the results. In testimony before the U.S. Senate Committee on Governmental Affairs in conjunction with National Unfunded Mandates Day (October 27, 1993), the mayor of Philadelphia, Edgar G. Rendell, zeroed in on EPA's incompetence. The EPA claimed that the cost of preparing storm water permits for the City of Brotherly Love would be $76,681. The actual cost turned out to be $916,950. Total mistakes nationwide ran into the tens of billions of dollars.

The town of Lancaster, New Hampshire, with a population of less than 3500, will be required to spend over $1.4 million to comply with the Safe Drinking Water Act alone. Lancaster generates only about $2 million in annual revenues. Nationwide, regulation of atrazine in drinking water would cost $93 billion per life prolonged. These examples are only likely to grow worse if EPA achieves Cabinet status.

Superfund Reform

In the Penny-Kasich version of the federal budget, an important reform was proposed to Superfund. It stated that ". . . in selecting appropriate remedial actions . . . on or after October 1, 1994, the President shall give a preference to the use of institutional controls (such as deed and access restrictions, monitoring, and provision of alternate water supplies), containment methods (including caps, slurry walls, and surface water diversion), and other interim measures, rather than permanent treatment technologies, if such measures are sufficient to assure the protection of human health and the environment."

This is an eminently sensible proposal that should be adopted regardless of the fate of Penny-Kasich. The runaway costs and punitive results associated with Superfund heavily burden local economies and governments. Superfund should not be reauthorized without major reform.

CEI

Information on this page was provided by Kent Jeffreys, director of environmental studies at the Competitive Enterprise Institute, 1001 Connecticut Avenue NW #1250, Washington, DC 20036; phone 202/331-1010, fax 202/331-0640

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Families

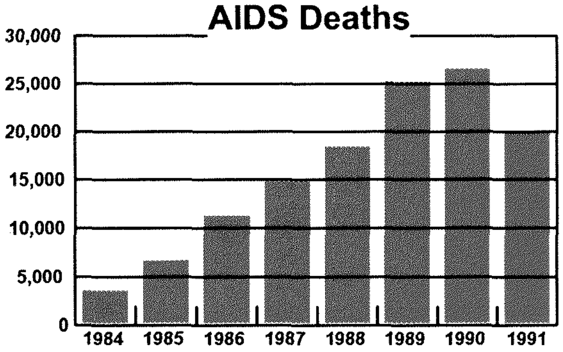
ROUTING REQUEST

Formula for Disaster: Strong Government, Weak Families

Cohabitation — Unhealthy Relationships

Domestic Partnership laws and other legal accommodations to nonmarital cohabitation deserve scrutiny. A recent study found that, compared to married couples, "cohabiting couples . . . have less healthy relationships. They have lower relationship quality, lower stability, and a higher level of disagreement." The evidence also suggests that the failure of a cohabiting union may have a more negative effect on a future marriage than divorce, since "divorced people may be less likely to view relationships as temporary as a result of their experience."

Source: "The Link Between Past and Present Intimate Relationships," *Journal of Family Issues 14* (1993): 236-260.



Dubious Memories

Recent changes in state laws permit courts to hear accusations of child sexual abuse that purportedly happened decades ago but which the self-identified victims have only recently remembered. Psychologist Elizabeth Loftus warns that fabricated memories may result from "fantasy, illusion, or hallucination-mediated screen memories, internally derived as a defense mechanism." Some therapists may even create false memories by "suggesting that the client was probably abused because of some vague symptoms." Loftus notes "we do not yet have the tools for reliably distinguishing the signal of true repressed memories from the noise of false ones."

Source: "The Reality of Repressed Memories," *American Psychologist 48* (1993): 518-537.

Delinquent Acts

Dropping out of high school may be less important than living with a single mother in turning an adolescent to delinquency. A recent study in the American Southwest concluded that "dropout rates have no impact on delinquency." However, "the greater the proportion of single motherhood . . . the higher the delinquency rates."

Source: "Residence, Dropping Out, and Delinquency Rates," *Deviant Behavior 14* (1993): 109-132.

Not At Risk

Government programs ought not be based on the often-asserted claim that AIDS threatens the lives of average Americans. In a recent study, researchers could find only a "very small number of homosexual and bisexual respondents." The same study documented a pattern of "high fidelity" among married Americans. In short, "most people are not placing themselves or their partners at high risk for exposure" to AIDS.

Source: "The Sexual Behavior of U.S. Adults: Results from a National Survey," *American Journal of Public Health 83* (1993): 1400-1406.

Poor Substitute

Subsidizing day-care centers means putting more and more children at risk. Psychologist Alice Sterling Honig concludes that "except in the rarest of circumstances," a paid caregiver is not a good substitute for a parent. "Caregivers . . . cannot by their cheerful daily ministrations substitute for that intense *intimate relationship* between a parent and a child." Moreover, a recent medical study found that, compared to those cared for at home, children cared for in day care were more than five times as likely to contact Hib meningitis. "The risk of Hib meningitis associated with day care attendance was much higher than that for any of the other risk factors [analyzed] except African-American race."

Sources: "Parents Care for Children Best," *Journal of Social Behavior and Personality 9* (1993); "Day Care Attendance and Other Risk Factors for Invasive Haemophilus influenzae Type b Disease," *American Journal of Epidemiology 138* (1993).

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Information on this page was provided by Bryce J. Christensen, editor of *New Research*, a monthly supplement to *The Family in America*, published by The Rockford Institute. For more information, contact Allan Carlson or Dr. Christensen at The Rockford Institute, 934 North Main Street, Rockford, IL 61103, phone 815/964-5053, fax 815/965-1826.

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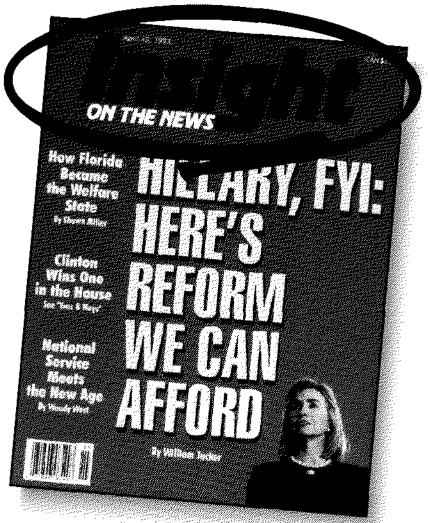
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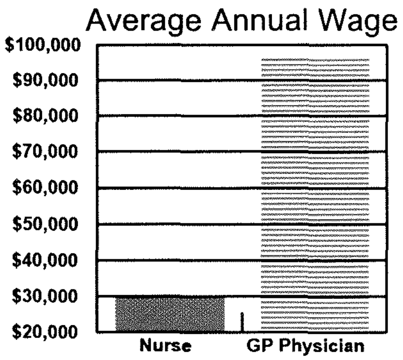
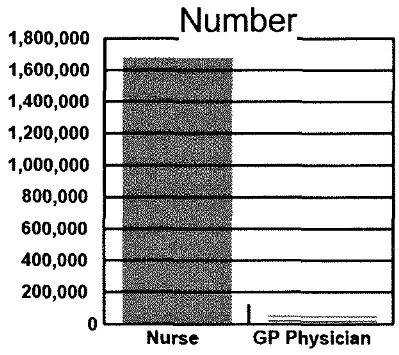
Time to End the Medical Monopoly

Nurses and General Practice Physicians: A comparison





Georgia Nearly Outlaws Nursing

As the Georgia Legislature was winding down its 1992 legislative session, it very nearly outlawed the practice of nursing, providing a prime example of one of the major problems of America's health care system.

The legislature was debating a bill to prohibit the practice of dentistry without a license, a thinly veiled attempt to stop dental hygienists from cleaning teeth. In the maze of legislative debate, the bill became entangled in the annual battle between ophthalmologists and optometrists over who can perform certain types of laser eye surgery. By the time it emerged, the bill prohibited anyone except a licensed physician, veterinarian, podiatrist, or dentist from performing "any surgery, operation, or invasive procedure in which human or animal tissue is cut, pierced, or otherwise altered."

Since routine injections pierce the skin, nurses would have been prevented from giving routine injections, drawing blood, or starting intravenous fluids. Only a court injunction prevented medical care in Georgia from being brought to a halt. (While it was at it, the bill would have outlawed ear piercing and tatoos, as well.)

The problem goes well beyond one misguided piece of legislation. The problem, as the *Atlanta Constitution* noted, is that "medical care professionals are constantly turning to the legislature to protect their economic interests, usually from the incursions of other health professionals."

Licensure Limits Competition

Studies have repeatedly shown that qualified mid-level nonphysician practitioners can perform many medical services traditionally performed by physicians. Yet, the medical profession has consistently used licensure and other regulatory restrictions to limit competition. For example, 37 states outlaw the practice of lay midwifery. In most states, nurse-practitioners cannot treat a patient without direct physician supervision. Chiropractors cannot order blood tests or CAT scans. Nurses, psychologists, pharmacists, and others cannot prescribe even the most basic medications.

Hospitals are equally guilty of seeking legislative protection from competition through the Certificate-of-Need process. Certificate-of-Need is based on the bizarre economic theory that greater supply and increased competition will lead to higher prices. However, studies have repeatedly demonstrated that CON programs not only fail to contain costs, but may actually lead to increased costs, while limiting the availability of medical services, particularly in rural areas. The Federal Trade Commission has concluded that, on a national basis, "Hospital costs would decline by $1.3 billion per year if states would deregulate their CON programs."

State Legislators Hold the Key to Reform

In the debate over health care reform, too few supporters of free markets have addressed the fact that the American health care system today has little competition and offers consumers few choices. ***This is an area where state legislators can begin health care reform immediately.*** They should thoroughly examine current health care regulations and eliminate those that do little more than protect monopoly cartels from marketplace competition.

CATO INSTITUTE

Information on this page was provided by Michael D. Tanner, director of health and welfare studies for the Cato Institute. For more information, contact the Cato Institute, 1000 Massachusetts Avenue NW, Washington, DC 20001; phone 202/842-0200, fax 202/842-3490.

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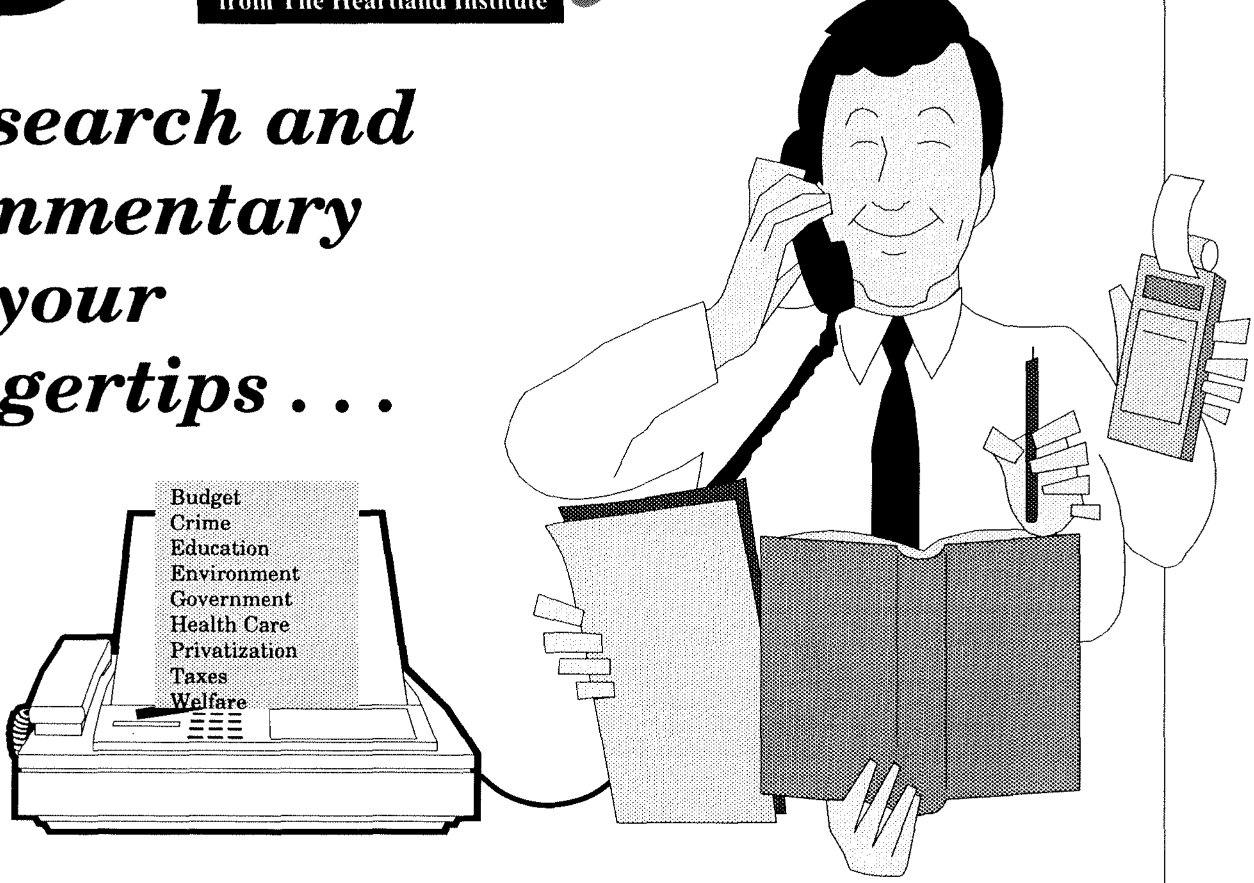

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Privatization

ROUTING REQUEST

"Reinventing Government" through Privatization

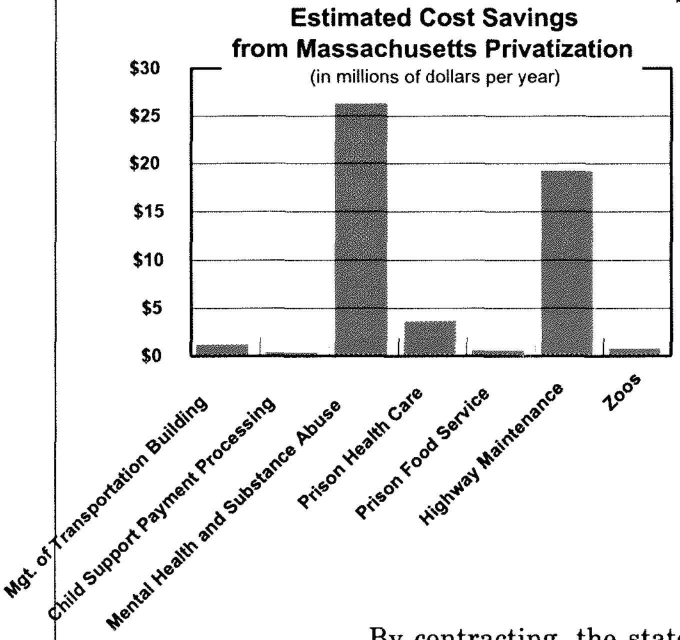
A Real Massachusetts Miracle

In November, Governor Weld of Massachusetts released a 69-page review of that state's privatization efforts during his tenure. "Privatization in Massachusetts: Getting Results" trumpets the success of Weld's privatization programs and answers critics who oppose contracting.

"Entrepreneurial government is discovering what the private sector has known all along: When private vendors compete for the state's business, quality goes up, and costs go down," reports Weld. "Privatization has already saved the Commonwealth's taxpayers over $273 million — and increased the quality and quantity of state services."

Before privatization, Massachusetts had the highest costs in the nation for prison health care. By contracting, the state reduced annual costs from $4,300 to $2,600 per inmate. Inmate trips to outside hospitals fell from 100 per day to 100 per week, lowering costs and security risks.

The glowing report nevertheless was unable to prevent a legislative over-ride of Weld's veto against a bill that severely limits privatization.



Educational Privatization

School choice is not the only market reform shaking up the world of education. Across the country, more and more communities are hiring private companies to manage public schools.

In Baltimore, Education Alternatives, Inc., manages nine inner-city public schools. In Minneapolis, the school board recently selected Public Strategies Group, Inc., to serve as superintendent, overseeing 75 schools and a $220 million budget. And Benno Schmidt, the former Yale President who now heads Chris Whittle's for-profit Edison Project, has met with Massachusetts' Governor Weld about managing charter schools in that state.

For more information see Janet R. Beales and John O'Leary, "Making Schools Work," Reason Foundation.

Reinventing Government Again

The Clinton administration's reinventing government program contains a strong endorsement for privatization and competition: "By creating competition between public organizations, contracting services out to private organizations, listening to our customer, and embracing market incentives wherever appropriate, we can transform the quality of services delivered to the American people."

But Clinton isn't the first president to have this idea — Thomas Jefferson was also a big fan of privatization. "It is better for the public to procure at the common market whatever the market can supply; because there it is by competition kept up in its quality and reduced to its minimum price." We couldn't agree more.

Unprivatization

Unfortunately, not everyone in the administration is on the bandwagon. The Federal Transit Administration has moved to reverse current guidelines that encourage competition between public mass transit providers and private transit contractors.

Though Gore's "Reinventing Government" report notes that "monopolies do not serve customers well," the administration is moving toward a public-sector monopoly for mass transit providers.

Reason Foundation

Information on this page was provided by John O'Leary and William Eggers of the Reason Foundation. For more information, contact the Reason Foundation, 3415 South Sepulveda Boulevard, Suite 400, Los Angeles, CA, 90034; phone 310/391-2245, fax 310/391-4395.

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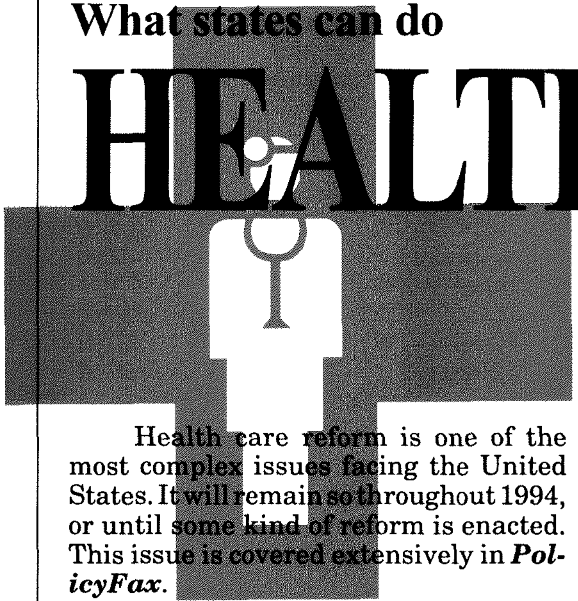
What states can do

HEALTHCARE



Health care reform is one of the most complex issues facing the United States. It will remain so throughout 1994, or until some kind of reform is enacted. This issue is covered extensively in ***PolicyFax***.

PolicyFax examines the key facets of the Clinton plan and other reform ideas that are under discussion at both the national and state levels. The *DataFiles* described below give you *quick facts* and *brief summaries* of ideas—just what you need to evaluate the reforms that are offered. ***PolicyFax*** also examines the problems with the current health care system and offers an overview of possible solutions.

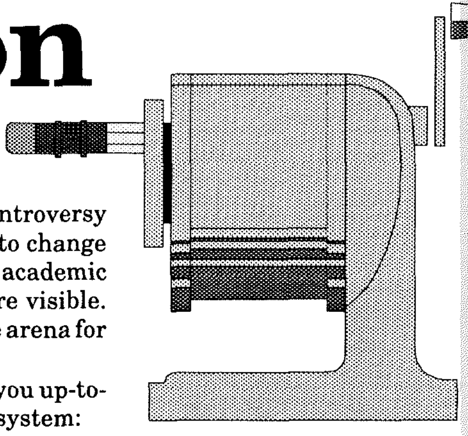
Canadian Model #3212001 Describes how national health insurance is working in Canada and the results we could expect if it were implemented in the United States. This *DataFile* also contains the latest information on health care spending trends and waiting times in Canada.

Insurance Regulation #3236001 Describes the problems we face with insurance today. It also looks at the uninsured, mandates, and insurance reform proposals.

(continued on page 16)

Education

What reforms make the grade?



The public school system has been a center of controversy during the first part of the 1990s. This is not apt to change until measurable improvements — in levels of academic achievement and dropout rates, for example — are visible. Many solutions are being tossed into the legislative arena for evaluation and action by state legislators.

PolicyFax now offers 14 *DataFiles* to bring you up-to-date on the challenges facing the U.S. education system:

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(continued on page 16)

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Health Care

(continued from page 15)

Managed Competition #3252001 The Clinton Administration is currently considering this model as its answer to health care reform. This *DataFile* explains how managed competition would be achieved and what its effects would be.

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There are five additional health care *DataFiles* available: Government Programs #3228001, Regulation of Providers #3273001, Tax Reform #3280001, Why We Spend Too Much #3292001, and the Pharmaceutical Industry #3264001. ✠

What's a DataFile?

A *DataFile* is a collection of summaries, abstracts, and quotations from a variety of sources on a specific topic. Each item in a *DataFile* (we call them *DataBytes*) is followed by a complete source citation.

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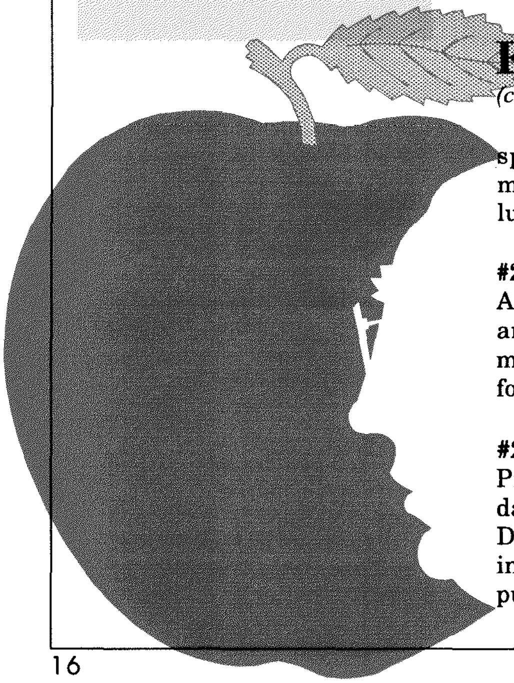

Education

(continued from page 15)

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Gambling and Lotteries #0828001 An evaluation of state-sponsored lotteries. Addresses such questions as: is lottery advertising misleading? do lotteries fund education? are lotteries an appropriate function of government? ✠

Questions?

If you have any questions about *PolicyFax*, call Rick Buckley or Diane Bast at 708/202-3060 or write to The Heartland Institute, 800 East Northwest Highway, Suite 1080, Palatine, Illinois 60067.

Taxes

ROUTING REQUEST

OBRA '93: What Can Taxpayers Expect?

State by State Tax Impact of OBRA '93

	Total Taxes ($ Millions)	Avg. Family Taxes	Rank by Average
Alabama	412.4	232	38
Alaska	96.1	262	26
Arizona	427.5	257	27
Arkansas	204.6	201	49
California	4,859.0	341	6
Colorado	452.4	277	19
Connecticut	857.1	467	1
Delaware	111.9	324	10
Florida	1,898.0	301	13
Georgia	876.8	292	17
Hawaii	144.6	254	30
Idaho	89.9	210	47
Illinois	1,912.7	336	7
Indiana	683.9	256	28
Iowa	286.9	214	43
Kansas	323.6	275	22
Kentucky	370.9	232	40
Louisiana	414.2	233	37
Maine	129.5	211	46
Maryland	911.8	365	4
Massachusetts	1,115.8	344	5
Michigan	1,450.5	326	8
Minnesota	630.1	294	16
Mississippi	109.5	103	51
Missouri	653.3	269	24
Montana	72.0	193	50
Nebraska	184.5	239	35
Nevada	186.6	274	23
New Hampshire	180.0	298	14
New Jersey	1,814.6	413	2
New Mexico	145.3	214	44
New York	3,420.7	387	3
North Carolina	756.5	236	36
North Dakota	66.1	217	42
Ohio	1,341.6	250	31
Oklahoma	335.4	243	33
Oregon	336.1	247	32
Pennsylvania	1,629.0	275	21
Rhode Island	165.8	320	11
South Carolina	348.7	218	41
South Dakota	65.7	202	48
Tennessee	547.2	239	34
Texas	2,262.3	295	15
Utah	161.0	232	39
Vermont	79.4	277	20
Virginia	986.8	325	9
Washington	657.4	282	18
West Virginia	157.4	212	45
Wisconsin	606.5	256	29
Wyoming	57.3	264	25
District of Columbia	108.7	306	12
United States	$35,990.1	$298	

The average American family can expect to pay $298 more in taxes in 1994 as a result of the Omnibus Budget Reconciliation Act of 1993 (OBRA '93). Yet residents of some states, such as Connecticut, will pay a good deal more than that, while residents of other states, including Mississippi, will pay much less.

Taxpayers at the upper end of the income scale can expect to bear the biggest additional burden due to the hike in individual income taxes. But according to Tax Foundation Senior Economist Arthur Hall, they won't be alone: About 46 percent of all taxpayers will pay higher income taxes as a result of OBRA '93.

For taxpayers with under $115,000 in annual income, changes in the way Social Security benefits are treated account for the additional taxes. The new law increases from 50 percent to 85 percent the amount of Social Security benefits subject to federal taxation.

The 4.3-cent per gallon gas tax increase, which took effect October 1, 1993, accounts for most of the projected revenue from the lower income groups. These groups are also expected to bear indirectly a large portion of the tax increases affecting business.

The chart to the left shows the increased federal tax burden of each state as a result of OBRA '93. It also shows how the total burden averages out among the families residing in each state, and how the families compare with families in other states.

In terms of total additional tax dollars sent to the U.S. Treasury, California, New York, Texas, Illinois, and Florida comprise the top five losers. These states also comprise the top five under each category of taxation (gas tax, individual income tax, and business income taxes) with one exception — for individual income taxes, New Jersey displaces Florida in the top five.

Wyoming, South Dakota, North Dakota, Montana, and Vermont comprise the bottom five states in terms of total additional dollars sent to Washington. But there is more variability among states in the bottom five when each category is analyzed separately.

Connecticut families can expect the largest additional tax burden next year, an average of $467 in extra taxes. Mississippi families can expect the smallest additional burden, an average of $103 in new taxes.

TAX FOUNDATION

Information on this page was provided by Stephen Gold, director of communications at the Tax Foundation. For more information, contact the Tax Foundation, 1250 H Street NW, Suite 750, Washington, DC 20005-3908; phone 202/783-2760, fax 202/942-7675.

Intellectual Ammunition January/February 1994 © The Heartland Institute

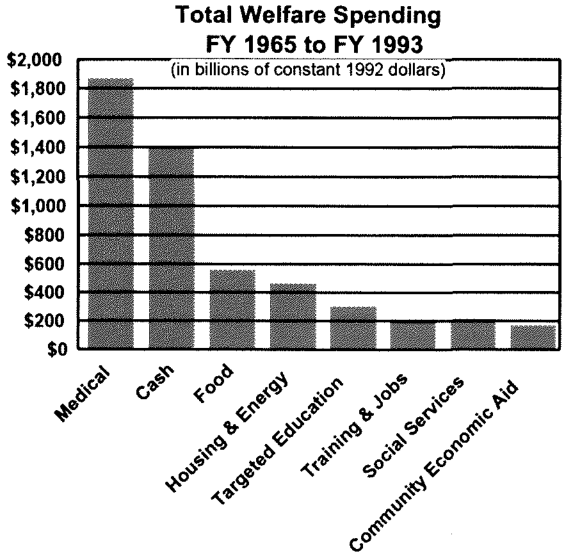
Welfare

ROUTING REQUEST

How We Spent $5 Trillion on the War on Poverty

Cost of War on Poverty

Lyndon Johnson announced that his War on Poverty was to be an "investment which would return its cost to society manyfold." So far the American taxpayer has "invested" over $5 trillion in the War. This sum is greater than the cost of defeating Germany and Japan in World War II. But in the War on Poverty, poverty seems to have won. The official poverty rate has remained largely unchanged since the War on Poverty began, while the problems of family break-up, welfare dependence, eroded work ethic, and crime have all gotten dramatically worse.


Total Welfare Spending FY 1965 to FY 1993
(in billions of constant 1992 dollars)

Longterm Welfare Dependence in the Inner City

A survey of mothers in low-income neighborhoods in Chicago revealed that many mothers experienced long spells of welfare dependence. Over 80 percent of black mothers and 75 percent of Puerto Rican mothers in the area reported at least one spell of welfare dependence. Defining a single spell of dependence as the number of months of consecutive uninterrupted receipt of AFDC, the study found the average spell among all mothers who were ever on welfare was five years. Some spells lasted as long as 26 years and were continuing as the survey period ended. Blacks and Puerto Ricans had longer spells even after holding a wide range of key socioeconomic variables constant. A black mother on AFDC had a 60 percent probability of remaining on welfare continuously for over 10 years. Similar rates were found for Puerto Ricans.

Source: Marta Tienda, "Welfare and Work in Chicago's Inner City," *The American Economic Review*, May 1990, pages 372-376.

Longterm Dependence Harms Children

Children in families dependent on AFDC for prolonged periods have more developmental problems than children dependent for shorter periods. Sixty-nine percent of children in chronically dependent welfare families score in the bottom third of all children on vocabulary and language skills tests. By contrast, only 39 percent of children in poor families never dependent on AFDC have similar low scores.

Source: Nicholas Zill and Kristin Moore, *The Life Circumstances and Development of Children in Welfare Families: A Profile Based on National Survey Data*, Child Trends, Inc., 2100 M Street NW, Washington, DC, October 29, 1991.

Homeless Families

Some 80 to 90 percent of homeless families are female-headed; generally they have preschool-aged children. One study of homeless female-headed families in Boston found that while nearly two-thirds had at least a GED, most had not worked for more than a month at a time or had never worked. The average age of the mothers was 27. Eighty-five percent had been living with friends or relatives before becoming homeless. Ninety percent were on AFDC. Fully two-thirds had significant personality disorders which predated the homeless episode. A third stated that they had been physically abused, generally by their own mothers. About half of the children in these families exhibited severe development lags.

Source: Ellen L. Bassuk, "Who Are the Homeless Families? Characteristics of Sheltered Mothers and Children," *Community Mental Health Journal*, October 1990, pages 425-433.

Information on this page was provided by Robert Rector, policy analyst for social, welfare, and family issues at The Heritage Foundation. For more information, contact The Heritage Foundation, 214 Massachusetts Avenue NE, Washington, DC 20002, phone 202/546-4400, fax 202/544-2260.

The Heritage Foundation

RESEARCH REPORT

Summaries of Research on State and Local Public Policy

See pages 38-39 for the addresses and telephone numbers of the publishers of research cited here.

BUDGET

PolicyFax!
To request a free directory of Budget publications available through ***PolicyFax***, just call 510/208-8000 and choose item #3 from the main welcome message. Request topic directory 08.

Can Science be Privately Funded? "[M]any government science funding functions could be carried out by private organizations, such as scientific societies which could act under government contracts." *Three possibilities:* (1) prizes for research results achieved, not research proposals; (2) a lottery to encourage new research; and (3) a research loan program. Dr. John D. Sommer, "Science and Policy: The Endless Tension," *News and Views*, Fall 1993, Center for Entrepreneurship and Free Enterprise. Contact CEFE at Reinhardt College, P.O. Box 128, Waleska, GA 30183; phone 404/720-5573.

Pocket Guide to Washington State Finances. How does Washington State compare to the U.S. average on revenue collections and spending? How have these figures changed over time? See *How Washington Compares, 1993*, Washington Research Council.

Tax Impact Cover-Up? Days before Congress voted on the Clinton tax plan, the Treasury Department finalized a report detailing how taxpayers would be affected. Treasury refused to make the report public. Only after a Freedom of Information Act request and "two months of demands by a dozen congressional offices" did the Administration release a copy of the report. "The States and Districts Hit Hardest by the 1993 Tax Increase," *Backgrounder Update*, November 24, 1993, The Heritage Foundation.

CIVIL RIGHTS

PolicyFax!
To request a free directory of Civil Rights publications available through ***PolicyFax***, just call 510/208-8000 and choose item #3 from the main welcome message. Request topic directory 12.

Property: The Fundamental Right. "The right to acquire, own, use, and enjoy property is the most fundamental of all civil rights. In fact, it is the foundation of all other civil rights we enjoy. Preserving private property inevitably leads to the preservation of other basic rights guaranteed in the Constitution." *Sad commentary:* Two Florida men were sentenced to 21 months in prison and fined $5,000 each for "the high crime of knowingly cleaning out a drainage ditch and putting clean builders' sand on a parcel of land" where one of them was planning to build a home. "Lose Your Property, Lose Your Freedom" and "American Justice: Build a Home, Go to Prison," *In Perspective*, Fall 1993, Pacific Legal Foundation.

ECONOMY

PolicyFax!
To request a free directory of publications on the Economy available through ***PolicyFax***, just call 510/208-8000 and choose item #3 from the main welcome message. Request topic directory 20.

Free Markets Best Weapon Against Tyranny. "Capitalism is the real enemy of tyranny. It stands not for accumulated wealth or greed but for human innovation, imagination, and risk-taking. It cannot be measured in mathematical models or quantified in statistical terms, which is why central planners and politicians always underestimate it. . . . [I]t is up to us, then, to give three cheers for capitalism. Who knows? If we cheer loud enough, perhaps even they will listen." Malcolm S. Forbes, Jr., "Three Cheers for Capitalism," *Imprimis*, September 1993, Hillsdale College.

EDUCATION

PolicyFax!
To request a free directory of Education publications available through ***PolicyFax***, just call 510/208-8000 and choose item #3 from the main welcome message. Request topic directory 21.

American Education's Failing Grades. America has invested heavily in its public schools, but the investment has not paid off. Of the ten states with the best student performance, only one also ranks among the top ten in per-pupil spending. By contrast, four states and the District of Columbia rank at the top in per-pupil spending and at the *bottom* in student achievement. *Report Card on American Education 1993*, September 1993, American Legislative Exchange Council.

Achieving Technological Revolution in Education. Privatization is an "essential step in the technological revolution strategy" for education. "[T]o extricate learning from the wasteful quagmire of obsolete schooling requires eliminating government ownership, operation, and subsidy of education and training institutions, thus freeing the $490 billion of annual U.S. education-related spending to become a true market for private, profit-seeking enterprise." Lewis J. Perelman, "Hyperlearning and the New Economy," *Technos*, Winter 1993, Agency for Instructional Technology. Contact them at Box A, Bloomington, IN 47402-0120; phone 812/339-2203, fax 812/333-4218.

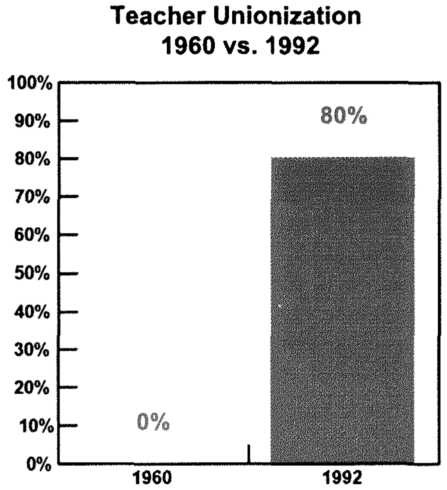
Choice Pros and Cons. "*Voices on Choice* provides a lively sampling of views from proponents and opponents of school choice, from a wide variety of professional perspectives, including views of academics, bureaucrats, politicians, union leaders, economists, lawyers, parents, and activists." 120 pages; $8.95 paper, Pacific Research Institute.

Choice Lessons from California Defeat. Two issues mattered most to Californians, who defeated an educational choice initiative by a two-to-one margin in November. (1) The fiscal impact vouchers would have on the public school system. Responding to an exit poll, 72 percent of Californians who voted against Prop 174 would have voted for it if public school funding were guaranteed not to drop. (2) The possibility of "kooks and extremists" running schools. Sixty-five percent of exit poll respondents said they would have supported Prop 174 if strong safeguards were included. John Hood, "The People's Choice?" *Carolina Journal*, December 1993/January 1994, The John Locke Foundation.

Colorado OBE Experiment Complex, Intimidating. "Outcome-Based Education is a subjective program of mind-boggling complexity," writes Linda Young, the only teacher to publicly oppose Littleton, Colorado's OBE experiment. Students are becoming increasingly worried about achieving the "136-page book of graduation requirements and demonstrations." State Department of Education propaganda refers to OBE-supportive teachers as "eagles" and "owls"; opponents are tagged as "vultures" and "buzzards." Linda Young, "OBE: Unsuccessful Experiment," *Education Reporter*, November 1993, Eagle Forum Education and Legal Defense Fund. Editorial offices at P.O. Box 618, Alton, IL 62002; phone 618/462-5415.

"The Minneapolis School Board recently voted to hand over the management of all the city's public schools to Public Strategies Group, Inc., a private consulting firm. . . . The plan is the first district-wide privately run program in the country. The firm will manage the district's 75 schools and its entire $220 million budget." "For-Profit Public School Management Spreads," *Business / Education Insider*, November 1993, The Heritage Foundation.

Decentralization Needed to Reform Chicago Schools. "It's not too late to blow up the Chicago Board of Education," notes *Chicago Tribune* writer R. Bruce Dold. He recommends dividing the system into 20 districts of 20,000 students each. *Real benefit:* "With 20 separate bargaining units, the Chicago Teachers Union couldn't hold the city hostage with the threat of shutting out 411,000 kids with a strike." R. Bruce Dold, "Let's break up the Board of Education," *Chicago Enterprise*, March/April 1993. Contact the Civic Committee of the Commercial Club of Chicago, One First National Plaza #2700, Chicago, IL 60603; phone 312/853-1203.



Five Rules for Constitutionally Safe Choice. (1) Aid should not be granted directly to religious schools. (2) Religious schools must benefit only through the independent choices of parents. (3) All types of schools — public, private, and parochial — must be allowed to participate. (4) Funding for students attending religious schools must not be greater than for those attending nonreligious schools. (5) State regulation of religious schools should not be greater than regulation of nonreligious schools. Jon S. Lerner, "The Constitutional Case for Universal School Choice in Minnesota," October 1993, Center of the American Experiment.

Legal Perspectives on Educational Choice. How much freedom can parents have in choosing how their sons and daughters are educated? Could "vouchers" be used without violating the U.S. constitution? Can student aid go to independent schools? Is public education truly neutral toward religion? These questions and more are answered by legal and public policy scholars in under 100 thoughtful, easy-to-read pages. James W. Skillen, editor, *The School-Choice Controversy: What is Constitutional?* 1993, $6.99 paper, The Center for Public Justice. Contact publisher Baker Book House at P.O. Box 6287, Grand Rapids, MI 49516-6287; phone 616/676-9185.

Revealing Survey of Arizona Private Schools. A thorough survey of two Arizona counties finds 113 private schools enrolling some 25,000 K-12 students. Half of the private schools charged less than $2,425 per student — total state spending per-pupil in Arizona public schools was $5,062. (Just nine private schools charged $5,000 or more.) The teacher-student ratio in the private schools was 1/15; in public schools, it was 1/16. *Most telling:* In the private schools there is one non-teaching employee for every four teachers (1/4); in the public schools, the ratio is 1/1.5. Michael Coffey, "A Survey of Arizona's Private Schools," *Arizona Issue Analysis*, October 1993, Barry Goldwater Institute.

Making Business-Education Partnerships Work. "Consider the absurdity of seeking to improve the U.S. Postal Service by having businesses 'adopt a post office.' It wouldn't change anything. If 'partnerships' with public schools are to be retained at all, they should be reconstituted as avenues to create pressure for real reform." David Kirkpatrick, "Business & Education," *Choice Comments*, November 15, 1993, The REACH Alliance.

Myths Pervade School Choice Debate. Among the top ten myths that prevent thoughtful discussion of educational choice: Parental choice grants will drain money from public schools.

In fact, as long as a choice program gives parents a voucher in an amount less than the current per-pupil expenditure, public schools have *more* money to work with. *Simple math:* If it costs $3,500 to educate a child in the public schools, and the child leaves the school with a $1,500 voucher, *$2,000* remains in the public school's budget, and it has one fewer student to serve with the money. "The Top 10 Myths About School Choice," November 23, 1993, Barry Goldwater Institute.

Nation's Education Experts Discuss Reform. "Many state policymakers and educational leaders have tried to rectify the shortcomings of our schools and strengthen them for the future with new, innovative approaches to education. *Educational Innovation: An Agenda to Frame the Future* showcases some of the major ideas and innovations that have proven to be successful." 519 pages; $29.50 paper, $75.00 cloth, The Commonwealth Foundation.

The Popularity of Educational Choice. Just days after Puerto Rico adopted a comprehensive school choice program, polls in the U.S. confirm that the vast majority on the mainland also favor choice. *Broad-based support:* Nationwide, 82 percent of poll respondents favor allowing parents to choose the schools their children attend. Among whites, Hispanics, and Blacks, support ran 82.4 percent, 84.5 percent, and 81.6 percent, respectively. David W. Kirkpatrick, "Educational Choice: The Upward Curve," *Choice Comments*, September 30, 1993, The REACH Alliance.

Private Choice Program With Wide Reach. Since 1987, a private group in Washington Heights, New York has been making it possible for students to escape the poor-performing, drug- and violence-racked public schools. In 1993, Operation Exodus Inner City placed 105 children in thirty schools in other parts of New York *and around the country*. Contact Luis Iza at 202/391-8059 for more information. "Operation Exodus is an Escape from Failing Public Schools," *Business/Education Insider*, September 1993, The Heritage Foundation.

Texas Town Rejects OBE. Trustees of the Goose Creek Consolidated Independent School District voted 6-1 to drop OBE from the district's strategic plan — despite efforts by the Texas Education Agency to turn Goose Creek into an OBE test site. The Trustees ordered the district's administration to remove OBE and Mastery Learning from the strategic plan and replace them with "a uniform, *academically rich* curriculum" for each grade. "Goose Creek Rejects OBE," *Education Reporter*, September 1993, Eagle Forum Education and Legal Defense Fund. Editorial offices at P.O. Box 618, Alton, IL 62002; phone 618/462-5415.

Between 1940 and 1990, inflation-adjusted per-student spending in the United States rose more than 500 percent, from $878 to $5,292. The percentage of school funding derived from local sources declined; on average, states now fund 48 percent of public elementary and secondary education — a share greater than that contributed by local revenues.

Private Firms Cut Costs, Improve Quality. Even without additional spending, public school administrators can take advantage of management strategies that stretch the resources they have available. One way to do so is to tap into the private sector — a resource that can provide expertise, accountability, and cost effectiveness in areas as diverse as pupil transportation and curriculum design. Janet R. Beales and John O'Leary, "Making Schools Work: Contracting Options for Better Management," *Policy Study No. 169*, November 1993, Reason Foundation.

What Does the Defeat of Prop 174 Mean? "The entirely expected happened in California on November 2. Would that it might have been otherwise, but for a variety of reasons, . . . we now know that November 2, 1993 was not the right time, California was not the right place, and Prop. 174 was not the right vehicle to secure the parental

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#2316101 *Poplar Front: The Rebirth of America's Forests*, by Jonathan H. Adler

#2316102 *California Fires — Losing Houses, Saving Rats*, by Ike Sugg

#2323101 *Babbitt's Eco-Babble*, by Ike Sugg

#2394101 *Little Green Lies: The Environmental Miseducation of America's Children*, by Jonathan H. Adler

#2800109 *Purer Politics, Greasier Pigs, and Other Wonders of Campaign Reform*, by Sam Kazman

#3264102 *Deadly Overcaution: The FDA's Drug Approval Process*, by Sam Kazman

#3264103 *Saying "Yes" to Drugs*, by Sam Kazman

#3264104 *Orwellian FDA*, by Sam Kazman

#7200401 *Death by Regulation*, by Sam Kazman

#7272401 *A Citizen's Guide to Banking Reform: Building a Fiscal Firewall Between Taxpayers and Failing Banks*, by Tom Miller

#8105106 *CEI v. National Highway Traffic Safety Administration*, by Sam Kazman

#9900101 *Jurassic Park, a Luddite Monster*, by Patrick Cox

See pages 38-39 for publishers' addresses and phone numbers.

freedom and justice school choice will provide." Quentin L. Quade, "California Special Report," *The Blum Center's Educational Freedom Report*, No. 2, November 9, 1993, The Blum Center for Parental Freedom in Education.

"Spending Equalization" Suit Fails in Minnesota. The Minnesota State Supreme Court has ruled that the unequal ability of school districts to raise property tax revenues does *not* violate the state constitution — which provides for a "general and uniform" system of public schools. The ruling is expected to encourage a deregulation push by Minnesota school districts with high property values, whose ability to raise funds has been restricted by state laws regarding property tax increase referenda. Ted Kolderie, "Ruling puts funding onus on Legislature," *Minnesota Journal*, September 21, 1993, Citizens League.

***Who Funds* is More Important than *How Much*.** Three public policy changes — school district consolidation, rising school size, and centralized funding of public education — have coincided with falling student achievement in the U.S. This is not a coincidence: All three policies have weakened local control over schools, reducing the ability of parents and local taxpayers to control school policies. Moreover, *per-pupil spending is unrelated to student achievement* — and even if the relationship were statistically significant it's inverse: as per-pupil spending increases in states, student achievement *falls*. Herbert J. Walberg, "Losing Local Control of Education: Cost and Quality Implications," *Heartland Policy Study No. 59*, November 22, 1993, The Heartland Institute.

"Total Quality" Must Be Applied Across the Board. W. Edwards Deming's "Total Quality Movement" has extended its reach beyond manufacturing and the service sector, gaining a following among some education reform activists. Schools in Maryland, Virginia, California, and Pennsylvania have been among the first to board the TQM bandwagon. Their experiences suggest TQM successes cannot be achieved piecemeal: School governance, curriculum design, instructional processes, and student performance measurement all must be reformed. John A. Leuenberger and Seldon V. Whitaker Jr., "The Total Quality Movement in Education," November 1993, The Commonwealth Foundation.

ENVIRONMENT

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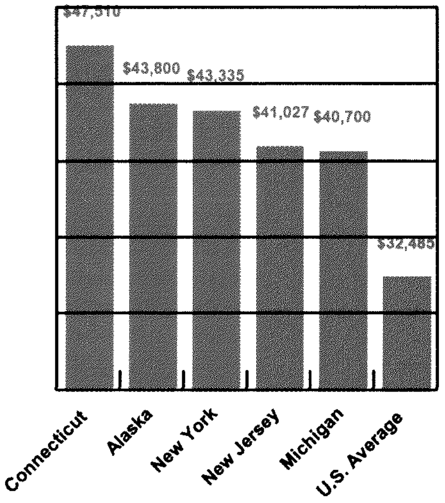
To request a free directory of Environment publications available through ***PolicyFax***, just call 510/208-8000 and choose item #3 from the main welcome message. Request topic directory 23.

Capitalism Can Save the Environment. "Abandon the myth of government as the Great Conservator; confine this power structure to insuring against fraud, violence, predation, misrepresentation, and other destructive action; and watch the profit seekers go to work in the interest of everyone! . . . They'll build parks, playgrounds, bird and other sanctuaries, and recreational areas of every conceivable kind and all over the place . . . And no more is required to put this remarkable profit process into action than to stop governmental preemption." Leonard E. Reed, "A Conservationist Looks at Freedom," *Man and Nature*, August 1993, The Foundation for Economic Education.



Top Five States for 1991-1992 Teacher Salaries

Free Market Improves Ecology as Well as Economy. Private owners — of forests, wildlife, lakes, etc. — make the best environmental stewards. Market-oriented economies like the U.S.' thus have better environmental records than the centralized economies of other nations. "Throughout the world, those nations with centralized economies have done far greater damage to the environment than the market-oriented West. Our worst ecological nightmares are their daily environmental realities." Jonathan H. Adler, "Free Market Environmentalism: Reconciling Environmental Protection and Economic Growth," *Issue Brief*, September 1993, The Commonwealth Foundation.

Michigan Acts Wisely on Asbestos. The State of Michigan has enacted a law that *forbids* removal of asbestos from buildings unless air concentrations are above 0.01 fibers per cubic centimeter of air (fcc). Michigan's public and private schools will save $1 billion as a result. *By contrast:* Asbestos removal has been mandated in New York City's public schools, even though a sample of 54 schools found asbestos fiber concentrations of just 0.00064 fcc — 15 times less than the Michigan mandatory minimum. Michael Bennett, "A Pointless Stir Over Asbestos," *Insight*, September 13, 1993.

Science Doesn't Matter to Global Warming Scaremongers. Robert Watson, the Clinton Administration's point man on global warming, "carefully dances around the embarrassing fact

Five Steps to Sound Environmental Thinking. (1) *Get the facts*; don't accept emotion, rhetoric, or vague generalities. (2) *Consider the source*: the "authority's" credentials, the self-interest of the source. (3) *Put potential risks into perspective*: We do not and cannot live in a risk-free world. (4) *Play devil's advocate* with the facts, once you have them. Become familiar with how facts can be distorted. (5) *Understand what to do* once real threats to human health are exposed. Government isn't always the answer. Dianne Durante, "A Checklist for Healthy Skeptics," *Man and Nature*, August 1993, The Foundation for Economic Education.

that the [global climate change] models simply do not check out." Climate models predict that surface air temperature should have increased about 1.5 degrees between 1890 and 1940; in fact, the temperature has increased by between 0.3 and 0.6 degrees. More importantly, "most of the observed increase occurred before 1940 — before greenhouse gases had increased appreciably . . ." S. Fred Singer, "White House Zealots Skirt Scientific Truth About Warming," *Insight*, September 13, 1993, pages 31-32.

Greenpeace USA raised $67 million in 1990, 60 percent from 43 million letters prepared by their fundraising consultants. Environment-defending interest groups are responsible for 10 percent of all direct [some would say "junk"] mail produced in the US.

Swapping Debt for Nature. With entirely private funds, Conservation International in July 1987 bought $650,000 of the Bolivian government's foreign debt, then forgave it — in exchange for the country's setting aside as conservation areas 3.7 million acres of government-owned land in the Amazon basin. The approach may prove especially valuable in Third World countries, which have lots of foreign debt and millions of acres of land ravaged by environmentally insensitive public policy. Lawrence W. Reed, "Privatization: Best Hope for a Vanishing Wilderness," *Man and Nature*, August 1993, The Foundation for Economic Education.

FAMILY

A Simple Message with Profound Implications. "The family is not a liberal or conservative idea, and it is not held together predominantly by government policies. . . . [Still], America's public and private institutions should be called upon to reinforce a simple and consistent message that is heard by all, and beginning at an early age: becoming a parent is important business and it requires responsibility, respect and, above all, readiness for the care of children." Don Eberly, "Fatherhood: The Social Issue for 1994," December 26, 1993, The Commonwealth Foundation.

Recycling: No Solid Waste Panacea

By Lawrence W. Reed

MIDLAND, MICHIGAN — If there's a buzzword in the business of managing America's solid waste problem, surely it is "recycling." At times the term seems to have taken on an almost religious meaning, with the faithful assuming that "disposable" is bad and "recycling" is good by definition.

In fact, however, sometimes recycling makes sense and sometimes it doesn't. In the legislative rush to pass recycling mandates, states and localities should pause to consider both the science and the economics of every proposition.

One area where recycling plainly works is in the disposal of aluminum cans. Since the process requires 10 percent less energy than transforming bauxite into aluminum, it pays for producers to use recycled cans. Hence, a market has spontaneously developed for these cans and market incentives encourage entrepreneurs to find efficient ways to collect them.

By contrast, recycling *doesn't* make sense in the disposal of aseptic juice boxes. Disposable packages such as these have been banned in Maine and are a frequent target of the more extreme environmentalists. But filling disposable boxes requires about half as much energy as filling glass bottles, the supposedly preferable alternative. And since the aseptic boxes do not require refrigeration, they do not contribute to the production of chlorfluorocarbons (CFCs) -- a byproduct of conventional refrigerants that some environmentalists claim is a threat to the earth's ozone.

Several cities, including Portland and Newark, have essentially banned polystyrene food packages. The average American thinks these efforts are positive for the environment because paper is "biodegradable" and polystyrene is not; thus the switch will reduce the need for landfills. The truth of the matter is more complicated than that.

Solid waste management requires good science and sound economics.

Polystyrene, in fact, is completely recyclable — unlike the paper used in, for example, drinking cups. And those paper cups cost the consumer about 2-1/2 times as much as polystyrene.

Studies also show that production of the old polystyrene McDonald's hamburger shell actually used 30 percent less energy than paperboard and resulted in 46 percent less air pollution and 42 percent less water pollution. Compared to its polystyrene counterpart, a paper cup produces about 580 times as much waste water, 10 to 100 times the residual effluents of pollutants, and three times the air emission pollutants.

Solid waste management requires a mix of policies and practices, from the use of incinerators to state-of-the-art, environmentally safe landfills, to composting. Recycling can play an important and constructive role in that mix, provided that it is based on good science and sound economics, not emotions.

# # #

Lawrence W. Reed is president of The Mackinac Center for Public Policy.

GOVERNMENT

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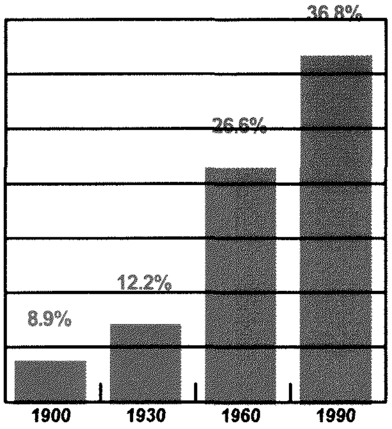
Dual Costs of Unfunded Mandates. Unfunded mandates, imposed by the federal government on states and localities, impose a *financial cost* because they require the lower levels of government to spend money. According to the Congressional Budget Office, regulations imposed between 1983 and 1990 probably cost state and local governments somewhere between $8.9 and $12.7 billion. But mandates also impose a *social cost*. "By separating spending decisions from revenue decisions, unfunded mandates undercut accountability." "Unfunded Federal Mandates: The Cost for States," October 18, 1993, National Governors Association. Contact the NGA at 444 North Capital Street, Washington, DC 20001-1572; phone 202/624-5300.

Media Fails as Government Watchdog. "The press is quite rightly perceived to be the principal watchdog of government, while the market is the principal watchdog of the private economy. . . . Indeed, government must have a watchdog precisely because it is *not* ruled by the discipline of the market. Unhappily, just as the government needs the press to watch and cover it, so the press needs government for its beat and its sources. . . This is why the press makes a pretty lousy watchdog, because it is too easily and completely housebroken into a lap dog watching out for its master's basic self-interest." Warren T. Brookes, "The National Press and the Statist Quo," *Cato Policy Report*, September/October 1993, Cato Institute.

To Survive, Cities Must Adopt Entrepreneurial Mindset. Municipal officials must continue to pursue, and wherever possible expand upon, the entrepreneurial techniques many adopted in the 1980s to respond to falling federal aid for cities. Privatization, deregulation, educational choice and other innovative approaches to education, and neighborhood empowerment are key. William H. Hudnut III, "The Rise of the Entrepreneurial City: An Urban Agenda for the 1990s," *Hudson Briefing Paper*, November 1993, Hudson Institute.

Re-evaluating Public-Sector Pay. *Recent findings of a Minnesota study:* ✔Public-sector pay grew 10 percent between 1982 and 1990; the personal income of taxpayers grew only 8 percent. ✔Compensation of state employees is uniform throughout the state, failing to adjust for local cost-of-living. ✔Public-sector compensation does not reward results. Bill Blazar, "Design public-sector pay to get better taxpayer value," *Minnesota Journal*, November 16, 1993, Citizens League.

Government Outlays as a Share of GNP



State Lotteries Hoodwink the Public. Lotteries — illegal in every state just 25 years ago — are today not only permitted but run as government monopolies in over 35 states. It happened because "voters and taxpayers were led to believe that lottery revenues would be earmarked for worthy causes." In fact, however, every dollar a state lottery generates for education or other causes almost inevitably is offset by cuts in funding from other sources. *Fact:* State aid to education in California and Michigan *fell* after their state lotteries were introduced. Sandeep Mangalmurti, "The Hypocrisy of State Lotteries," *A Heartland Perspective*, November 29, 1993, The Heartland Institute.

How Much Does Government Cost in New York City? It costs the *New York Board of Education* $8,612 to keep one student in school for one year; the *Police Department* $12,733 to make one arrest; the *Department of Corrections* $58,030 to keep one person in prison for one year; the *Department of Social Services* $21,270 to provide child care for one year to one eligible person; and the *Department of Transportation* $194,487 to resurface or reconstruct one lane-mile of street or arterial highway. Jim Powell, "Full Disclosure: Estimating the Per Unit Costs of New York City Government Services," November 1993, New York Citizens for a Sound Economy Foundation.

Time is Right for Tough Negotiations. State and local government agencies eager to get their labor costs under control will find 1994 a good year to take action. "About one-third of 678 major collective bargaining agreements covering state and local government employees are due to expire or be reopened during 1994. The 223 pacts will cover 764,000 of the nearly 2.7 million workers employed by those governments." "One-Third of State and Local Government Pacts Expire in 1994," *The Government Union Critique*, December 10, 1993, Public Service Research Foundation.

U.S. Moving in the Wrong Direction. "Around the world, centralization, industrial planning, and command economies are on the way out. Privatization around the globe continues to be the goal. . . Most of these countries are lowering taxes, not raising them. Ironically, in the midst of this revolution, Clinton's brain trust . . . offers the German 'social economy' as a model to be emulated." Barry Asmus, "Private Sector Solutions to Public Sector Problems," *Imprimis*, October 1993, Hillsdale College.

"Reinventing Government" in Name Only. Vice President Gore's "reinventing government" report contains hundreds of specific recommendations to streamline government and make it more responsive to taxpayers. But these recommendations — even assuming they're acted on — will fall short of their mark. *Badly needed, but missing:* (1) Eliminate all unnecessary programs. (2) Use federalism to move services closer to taxpayers. (3) Use privatization to bring market discipline to government services. Scott A. Hodge, "The National Performance Review: Falling Short of Real Government Reform," *Backgrounder No. 962*, October 7, 1993, The Heritage Foundation.

> In 1960 there were 365 paid lobbyists working the Senate. Today, there are over 40,000, or approximately 400 per Senator.
> — Institute for Policy Innovation

HEALTH

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A Tax Increase By Any Other Name. The Clinton administration's health care reform proposal would require employees to pay a "premium" to the government-established health alliance. *Who pays what?* The typical married employee without children would pay an annual "premium" of $872. A married employee with children would pay $2,479. And a two-earner family with children would pay $5,800 — almost certainly more than they currently pay for health insurance. That is, a substantial tax increase. Martin Feldstein, "Clinton's Hidden Health Tax," *The Wall Street Journal*, November 10, 1993.

Canadian Lessons for Health Care Reform. The "global budgets" envisioned by the Clinton Administration's health care reform proposal are little more than thinly veiled *price controls* on the industry. But price controls re-

Government

Performance Before Payment

By John Semmens

CHANDLER, ARIZONA — No matter how much we pay in taxes, government programs seem to be "under-funded." Legislatures and voters are repeatedly presented with fiscal crises that presumably can be solved only by tax increases. We often pay more taxes, but the crises are seldom alleviated.

The key reason for poor results from repeated tax hikes is the lack of a strong incentive for the bureaucracy to perform. Regardless of whether the promised services are provided, the taxes are collected. This is what must change if we are serious about getting improved outcomes from taxes.

The only way to significantly change this incentive is to reverse the sequence of payment and performance. The standard approach to public finance requires the taxpayers to pay first, trusting the bureaucracy to perform. Unfortunately, whatever taxes are paid are rarely enough. Cost over-runs and performance shortfalls, rather than being a source of shame, become an argument for a new round of tax increases.

Effective reform would require that tax payments be made after the promised performance is achieved. Defenders of the status quo assert that it is not feasible to deny the bureaucracy a "secure" source of funding. But private businesses must operate in this way. Capital must be raised and a product or service produced before customers are expected to make any payments. If the product or service isn't provided, or if consumers find it unsatisfactory, the business will not be rewarded with revenues. This is their incentive to perform.

The simplest way to reverse the sequence of payment and performance in the public sector is through privatization. A more complicated way is to link taxes to specific and measurable performance goals. For example, the taxes to fund highway construction could be prorated by highway segment. Each prorated increment of tax would only go into effect as each segment of highway was opened to traffic.

> **Effective tax reform requires that the bureaucracy be paid *only after* it performs.**

If the receipt of taxes were made contingent upon performance, the bureaucracy would have a stronger incentive to deliver on its promises. Initial capital for projects would be obtained by selling revenue anticipation bonds to investors. The funds to repay these bonds would only be forthcoming if the promised performance goals were achieved. Since investors will not lend money if the prospect of repayment is poor, the bureaucracy has an incentive to avoid infeasible programs.

Over the years there have been many failed attempts to make government operate on a more business-like basis. These failures can be traced to the fact that performance shortfalls had no negative impact on revenues. We must make government revenues contingent upon performance. It's as simple as that.

# # #

John Semmens is an economist with the Laissez Faire Institute in Chandler, Arizona.

strict supply, and as a result growing demands for health care services go unmet. *Who gets care and who doesn't?* "There is some evidence that when health care is rationed, those pushed to the rear of the waiting lines tend to be the poor, racial minorities, the elderly, and people who live in rural areas." John Goodman and Michael Walker, "What President Clinton Can Learn from Canada about Price Control and Global Budgets," *Briefing on Health Care Reform*, October 1993, Pacific Research Institute.

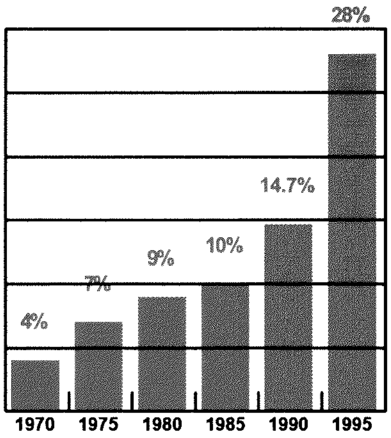
Critical Assessment of Clinton Plan Needed. Congress and state policy makers "should let neither respect for the First Lady nor what the president termed the 'good will and hopefulness that surrounded the announcement of our health security plan'" prevent them from critically assessing the Clinton's proposal. *Results*, not merely good intentions, must be the ultimate measure of the value of any reform proposal. Doug Bandow, "Dangerous Medicine: A Critical Analysis of Clinton's Health Plan," *Policy Report*, October 1993, The John Locke Foundation.

Clinton Plan Not the Only Alternative. The "government-run social program" approach to health care reform favored by the Clinton Administration is not the only health care reform plan under discussion in Washington. Illinois Rep. Robert Michel's "Affordable Health Care Now Act" (H.R. 3080) already has 105 cosponsors; Rhode Island Senator Chafee, Texas Senator Phil Gramm, Representative Stearns, and Oklahoma Senator Don Nickles will soon introduce their own bills. Rep. Dick Armey, Chairman, House Republican Conference, "A Better Prescription: Republican Alternatives to the Clinton Health Care Reform Plan," *A White Paper: Part 2*, September 28, 1993.

> "American health care is like a house with faulty wiring. The prudent course of action is to make the necessary repairs while preserving the fundamentally sound structure. We shouldn't tear the house down. Republicans want to focus on the faulty wiring; the Administration seems anxious to start the bulldozers and wrecking ball."
>
> — Rep. Dick Armey

Clinton Plan's Rationing Will Hit Urban Patients Hardest. "Pressure to ration will be greatest in [regional health] alliances that include cities. Inside an alliance, everyone pays the same rate — "community rating" — for health care, and the premiums collected have to cover everyone's needs, including the AIDS patient, the assault victim, and the $158,000 low-birth-weight baby. People will figure out that you pay the highest premiums and get the least health care in alliances that include inner cities." (Sounds like another education crisis in the making, doesn't it?) "Price controls on Health Care," *The Wall Street Journal*, November 22, 1993.

Medicaid Spending as a Percentage of State Budgets



Canada No Health Care Model. While health care costs in Canada have not been rising as fast as they have been in the United States, Canadians nevertheless pay a steep price. "The total waiting time from being referred by the general practitioner to treatment ranges from 11.5 weeks in Ontario to 21 weeks on Prince Edward Island. . . . Dr. Robert Macmillan, head of health insurance for the Ontario Ministry of Health, said recently, 'All of Canada faces a lag in accessibility, particularly in highly sophisticated care.'" David Boaz, "Canada Offers Faulty Model," *Insight*, September 13, 1993, pages 30-31.

Cost-Cutting Promised by Medical Savings Accounts. According to a computer simulation conducted by the actuarial consulting firm of Milliman and Robertson, Inc., the United States could save $588 billion over the next five years if Congress enacts a Medical Savings Account program. *MSAs would*: reduce utilization; reduce medical inflation; cut the number of uninsureds by half; reduce administrative costs; return $187.5 billion in personal savings; and lower government spending on health care. "The Financial Impact of Medical Savings Accounts on Health Care Spending and the Federal Budget," October 13, 1993, Council for Affordable Health Insurance.

> **P.J. O'Rourke**
> on the Clinton Health Care Plan
>
> "We have here a basic law of economics. The price of health care will be fixed below market value. And we're all going to die."
>
> *The Wall Street Journal*

Clinton Plan Will Limit Choice, Access. "The price controls in the [Clinton health care] plan would soon transform all insurance plans into 'managed care' plans, such as health maintenance organizations (HMOs), under which access to health care is tightly controlled. As a result, President Clinton's health care plan . . . sounds the death knell for choice and access in the American health care system." Michele Davis, "Rationed Care: Clinton Plan Leaves No Way Out," *Capitol Comment*, December 2, 1993, Citizens for a Sound Economy Foundation.

Clinton Health Plan — Politics at its Best. "President Clinton's Health Security Act initiative would likely be fatal both to the requirements of competitive medicine and the increased availability of health care to everyone. However, in seeking to capture middle class tax dollars and votes in order to enlarge government bureaucracy, it fulfills precisely the requirements of successful political entrepreneurship." "Health Care Hoopla," *Research Reports*, October 18, 1993, American Institute for Economic Research.

Clinton Plan Creates Complexity, Not Simplicity. Among the six principles of health care reform emphasized by President Bill Clinton, "simplicity" tops the list. But "Clinton's vision of simplicity includes a multitude of new bureaucratic institutions—in addition to the already existing ones — that would administer prices, regulate services, and demand hours of paperwork." *A Clinton reform sampler:* National Health Board, Breakthrough Drug Pricing Committee, National Quality Management Program, National Health Data Advisory Council, Health Professions Projects and Demonstration Training Authority, etc., etc. Julie Petrowski, "The Clinton Plan: Strangling Health Care in Red Tape," *Regulatory Impact Statement*, December 14, 1993, Citizens for a Sound Economy Foundation.

> "Dr. Robert J. Scheuplein, director of the Office of Toxicological Sciences at the FDA, estimated that traditional food accounts for 98.8 percent of food-related cancer risk. Of the others, spices make up about .98 percent, other additives 2 percent, pesticides 0.01 percent, animal drugs 0.01 percent."
> Michael Fumento
> *Science Under Siege*

> The average American works 44 minutes out of every 8-hour day to pay for medical care. Just two of those minutes are needed to pay for prescription drugs.
> *Eli Lilly and Company*

Disquieting Lessons from Germany's Socialized Medicine. Dr. Marc S. Micozzi, a physician and director of the National Museum of Health and Medicine in Washington, DC, warns: "[A]t the beginning of the twentieth century. . the increasing involvement of the German government in medical care and funding medical research established the government-medical complex that the National Socialists later used to execute their extermination policies." Medical ethics will suffer if medicine is politicized and bureaucratized, and if personal responsibility, personal authority, and personal choice are removed from health care decision making. Marc S. Micozzi, M.D., "National Health Care: Medicine in Germany 1918-1945," *The Freeman*, November 1993, Foundation for Economic Education.

Defining Reform Terms. The Clinton Administration's health care reform proposal gives new meaning to common terms. Regional Health "Alliances," for example, are not at all the voluntary, cooperative programs you might expect from the term. And "insurance" is nothing more than pre-paid health care; true, risk-based "insurance" is made illegal. "Ironically, insurance companies could not charge smokers higher premiums to take account of higher risks they incur for contracting certain diseases, yet the administration would tax smokers, allegedly for this same purpose." Roy Cordato, "What Words Mean," *Carolina Journal*, December 1993/January 1994, The John Locke Foundation.

He Ain't Seen Nothing Yet! President Clinton called the U.S. health care system "clearly the most costly and the most bureaucratic system in the entire world." You thought he meant that as a criticism, but actions speak louder than words. "How can a federal government famous for fraud, wasteful spending and downright ineptitude be expected to oversee what Clinton hopes will be a

Citizens for a Sound Economy is a 250,000-member grassroots advocacy group that promotes market-based public policy solutions. The following CSE documents are available for $5 each through ***PolicyFax***.

#0800108 Deficit Reduction: Why It Won't Happen if Spending isn't Cut First.

#1980101 NAFTA and Ross Perot: The Rest of the Story

#2800110 Amending the Discharge Petition Process: Reducing Secrecy in Congress.

#2800111 "Reinventing Government": Maybe One Hip, But No Hooray.

#3228103 Medicaid: Too Many Goals, Too Little Return on Our Tax Dollars.

#3228104 Medicare's Self-Destruction.

#3228105 Creating a New Bureaucracy: Clinton's National Health Board.

#3228106 The Clinton Plan: Strangling Health Care in Red Tape.

#3228107 Rationed Care: Clinton Plan Leaves No Way Out.

#3228108 The Clinton Health Care Plan: By Its Own Criteria Doesn't Measure Up.

#3228109 President Clinton's Proposed Health Care Tax: A VAT of Trouble?

#3252101 Will the Real Managed Competition Please Stand Up?

#3253103 Medical Savings Accounts: Putting Consumers in the Driver's Seat.

#3272106 Why Global Spending Caps Won't Help the Health Care System.

CSE FOUNDATION

See pages 38-39 for publishers' addresses and phone numbers.

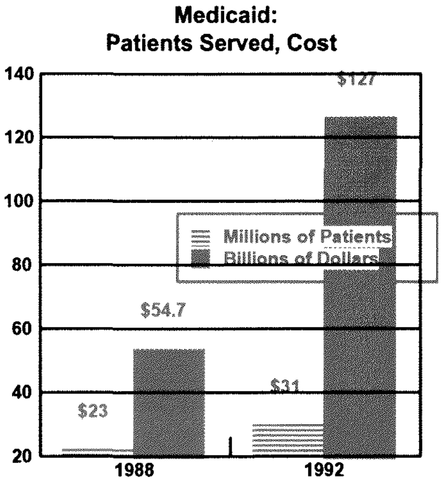
slimmer, sleeker and more competitive health care system?" Brian Sherman, "Clinton's Recipe for Health-Care Reform," *Private Practice*, November 1993. Contact Editor Brian Sherman at P.O. Box 890547, Oklahoma City, OK 73189-0547; phone 405/692-4466, fax 405/692-4446.

In 1990, a Harvard University study reported that one in eight negligently injured patients filed lawsuits. But over 80 percent of these patients were not, in fact, negligently injured — in more than half the cases, there was no evidence of *any* medical injury at all. The median malpractice award was $650,000 in 1992 — up 225 percent from 1982. Eight physicians out of every 100 are sued each year; for obstetricians-gynecologists, the rate is three out of every four. Jesse Malkin, "Health Care's Ignored Problem," *Investor's Business Daily*, October 27, 1993.

High-Risk Pools for the Uninsurable. Twenty-seven states have adopted risk pools, 18 of which are funded at least in part by assessments on health insurers doing business in the state. Over 100,000 previously uninsurable people are insured by these programs. *Advantage:* High-risk pools help the small number of involuntarily uninsured Americans *without* forcing the voluntarily uninsured to buy coverage, and without gutting the free market insurance industry that serves the vast majority of Americans well. Senator Howard H. Hendrick, "Insuring the Uninsurable Without Distorting the Marketplace: The Case for High Risk Pools," *Report*, November 1993, Resource Institute of Oklahoma.

Medical Savings Accounts As A State-Level Reform. Medical Savings Accounts — health care IRAs that allow individuals to save money to pay out-of-pocket medical expenses — are the subject of much debate in Washington, DC. But in at least some states, the debate is over: As of September 1993, three states (Colorado, Mississippi, and Missouri) have adopted MSA legislation; nine states have such legislation pending; and three states have passed resolutions calling on Congress to enact MSA legislation. Keith Bashore, "The Role of Medical Savings Accounts in Pennsylvania's Health Care Future," *Issue Brief*, December 1993, The Commonwealth Foundation.

Move to OTC Drugs Improves Access, Cuts Costs. The competitive nature of the pharmaceutical industry continues to stimulate innovations that will benefit consumers. Pharmaceutical companies are seeking FDA approval to sell certain drugs without a doctor's prescription. Turning prescription drugs into OTC products cuts consumer costs and respects the fact that consumers have become very knowledgeable about the drugs they take. *Success story:* Today, more than 400 over-the-counter products use ingredients and dosages available only by prescription just 15 years ago. Mariann Caprino, "Prescription drugs being put on the shelf," *Chicago Tribune*, November 25, 1993.



Managed Competition Puts Health at Risk. The managed competition element of the Clinton Administration's health care reform proposal relies heavily on primary care physicians to serve as health care "gatekeepers," screening patients and keeping them from "unnecessarily" seeing such specialists as gynecologists. But this emphasis on primary care physicians may put Americans' health at risk: "The limiting of referrals . . . is in direct conflict with the structure of American medical education and the medical profession. Such limits can cause primary care physicians — general practitioners — to prescribe care at levels that exceed their knowledge and training. When this occurs, the patient runs the risk of receiving improper care." Vincent W. Cangello, M.D., "The Consequences of Managed Competition," *The Freeman*, November 1993, Foundation for Economic Education.

Not Good Enough for Them? James King, Director of the Office of Personnel Management in the Clinton Administration, administers the Federal Employee Health Benefits Program (FEHBP). In a September letter to Hillary Rodham Clinton, he writes "I think it is important that the FEHBP population be given the opportunity to see that national health reform is working before they are transitioned into it." In other words, King sought — and has received — a promise that federal workers, retirees, and their families will be exempted from whatever plan is foisted upon the rest of America. Stuart M. Butler, "Why the Clinton Administration will be Exempt from the Clinton Health Plan," *Executive Memorandum*, November 9, 1993, The Heritage Foundation.

Health Reform, Clinton-Style: The Clinton health care reform proposal, released in September 1993, was 239 pages long. Now in bill form, it takes 1,342 pages. It "promises to evolve into somewhere around 10,000 pages of implementing regulations" that will "spawn 59 new federal programs or bureaucracies."
— Pacific Research Institute

North Carolina Urged to Reform Itself. Because "too many interest-group oxen are gored by [the Clinton reform proposal] for North Carolinans to expect its passage in the near future," state policy makers are encouraged to take the lead. *A proposal for reform:* ❖ enact a Medical Savings Accounts program ❖ provide universal access by converting Medicaid to a voucher program for the poor ❖ charge

See pages 38-39 for publishers' addresses and phone numbers.

income surtaxes for the voluntarily uninsured who don't pay their medical bills ❖ improve rural access to care by easing occupational licensure restrictions ❖ adopt effective medical malpractice reform. John Hood, "Health*Carolina*," *Working Paper*, November 1993, The John Locke Foundation.

Rochester, NY, No Model City. Supporters of the Clinton health care proposal point to Rochester, NY, as a "model" city that has adopted many of the same reforms. Just 7.1 percent of Rochester's population is uninsured — but neighboring Buffalo has about the same rate. The average family health insurance premium in Buffalo is lower than in "model" Rochester. And Rochester's growth in health care spending mirrors the national growth rate. General Accounting Office, "Rochester's Community Approach Yields Better Access, Lower Costs," January 1993; and *EBRI Issue Brief No. 133*, January 1993. Both cited in "Model City?" *Executive Alert*, November/December 1993, National Center for Policy Analysis.

> The biggest single consumer of health care services in the U.S. is government, accounting for 42.4 percent of total health care spending. State and federal governments spent over $280 billion on health care in 1990, up from just $24.9 billion in 1970.

Some States Have Failed on Health Care Reform. Connecticut, Florida, Hawaii, Maryland, Massachusetts, New York, Oregon, Vermont, and Washington — all have implemented or proposed health care reforms. All have been largely counterproductive, producing: insurance premium increases, less access, lost jobs, increased spending, and medical care rationing. Michael Tanner, "Laboratory Failure: States are No Model for Health Care Reform," *Policy Analysis No. 197*, September 23, 1993, Cato Institute.

Television News Favors Government Solutions. *Survey #1:* Conducted by *MediaWatch*, found that 76

Reinventing Government

Of Ashtrays and Appendectomies

By John O'Leary

LOS ANGELES, CALIFORNIA — A wise philosopher once advised, "Don't listen to what people say, watch what they do."

This sage advice should be applied to the Clinton Administration's "Reinventing Government" drive. "The Government is broken, and we intend to fix it," said President Clinton. He waxed enthusiastic as he accepted the final report of the Vice President's National Performance Review.

A 250,000-employee reduction in the federal workforce. Savings of $108 billion through streamlining the federal bureaucracy. Maybe Clinton is a New Democrat after all. And in the same way that only Nixon could go to China, perhaps only Clinton could succeed in slashing the federal bureaucracy where Reagan and the Grace Commission had failed.

There was Vice President Gore on the Letterman show, ridiculing the federal specifications for buying an ashtray — more accurately, an "Ash Receptacle, Desk Type." This specification includes a requirement that the ashtray break into no more than 35 pieces when dropped.

By demonstrating how a mindless federal bureaucracy could behave, the baby boomers in the White House were sending the same message that had inaugurated the Reagan Revolution: Government isn't the solution, it's the problem.

But actions speak louder than photo-ops, and Clinton's actions belie the enticing rhetoric of reinventing government. The day after he stood in front of the 1,000 pounds of paperwork that regulate the federal government's employee policies, Clinton signed legislation creating a new bureaucracy. The national service plan, though smaller than Clinton was hoping for, will cost taxpayers $1.5 billion and provide makework public service jobs for 47,000 participants.

> **Before we "reinvent" government, we must reconsider its proper role in a free society.**

Two weeks later, Clinton announced his plan for reinventing health care. Clinton wants beltway insiders to dictate everything from who gets dialysis to how much penicillin costs. An additional 15 percent of the GNP will come under the direction of Health Czar Hillary Rodham Clinton and her 500-member committee. A government that can't buy an ashtray is preparing to make life-and-death decisions for 250 million Americans.

A reassessment of how government operates is long overdue, and there are ways to make government operate more efficiently. But before it is reinvented, government needs to be reconsidered.

We must first examine what government *should* do, and only then figure out how it can best be done. There is merit behind some of the reforms associated with the reinventing government concept, but until their deeds match their words, the Clinton-Gore White House is just blowing smoke. Somebody get an ashtray.

# # #

John O'Leary directs the Privatization Center of the Reason Foundation.

percent of stories about government-run health systems were positive in tone. Proponents of socialized medicine outnumbered critics 72 to 36. Sixty-five percent of the stories referred to the government-run programs as "free." *Survey #2:* Conducted by the Media Research Center, found that in 140 stories, 43 minutes were given to pro-government claims and spokesmen, while only 19 minutes featured the pro-market side. The rest of the time (244 minutes) was neutral background information. "The Media on Health Care Reform: Government Works, Markets Don't," *Special Report*, September 21, 1993, Media Research Center.

Pharmaceutical Drugs *Save* Health Care Dollars. "Breakthrough pharmaceuticals are net *savers* of health care dollars. Drug therapy averts billions of dollars in medical costs by treating conditions that would otherwise require more costly surgery and hospitalization." *Compare*: coronary artery disease — drug therapy, $1,000 a year; bypass surgery, $41,000. Ulcers — drug therapy, $900 a year; surgery, $25,000. Robert M. Goldberg, Ph.D., "Pharmaceutical Price Controls: Saving Money Today or Lives Tomorrow?" *IPI Policy Report No. 123*, September 1993, The Institute for Policy Innovation.

The Congested Freeway of Health Care? "Remember what a freeway is: a *controlled access road.* That's what 'universal' access means too. Sure you have the 'right' to get on the freeway just as you have the 'right' to medical care in Canada. . . But you can only get on the freeway from the on-ramp. There is no tollgate or stoplight — but the traffic might be backed up for miles and moving imperceptibly. In Canada, you don't have to pay to get medical care. In fact, you are *not allowed* to pay. Once the global budget is reached in Canada, that's it. The on-ramps are closed." Jane M. Orient, M.D., "The Freeway to Serfdom," *The Freeman*, November 1993, Foundation for Economic Education.

HIGHER EDUCATION

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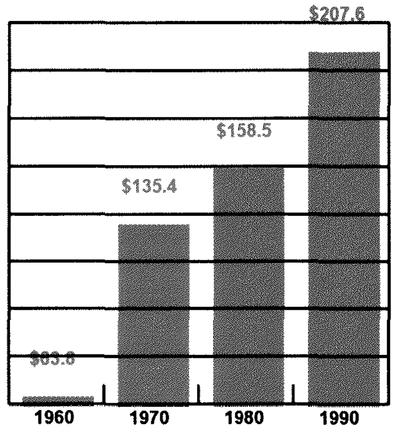
Politically Incorrect Thoughts on P.C. Political coercion should not be used to define and enforce what is "correct" speech or expression — because any word or any gesture may offend someone under some circumstance. Only profound violations of personal freedom would result. "P.C. is decidedly not politically correct in the public policy of an open or liberal system." Gilbert Cuthbertson, "P.O. or Not P.C.?" *Action Briefs*, November/December 1993, Rice Institute for Policy Analysis. Contact Rice University, P.O. Box 1892, Houston, TX 77251.

Total Spending on Public Elementary and Secondary Schools
(billions of constant 1990 dollars)



States Should Fund Students, Not Institutions. Shifting higher-education appropriations away from institutions and into student assistance would cut higher education costs *and* target aid to students who need it. *Facts:* More than 90 percent of Minnesota state spending on higher education goes to institutions, allowing them to keep tuitions low. But most Minnesota students don't *need* low tuitions: A person with a family income above $50,000 is three times more likely to attend a four-year college than a person with family income under $30,000. Yusef Mgeni and Janet Dudrow, "Lower direct state subsidies to colleges; target more funding to needy students," *Minnesota Journal*, November 16, 1993, Citizens League.

And lawyers and law professors aren't? "The *U.C. Davis Law Review* follows the convention of using female pronouns. This Article follows that convention except when referring to criminal defendants, where male pronouns are used. Federal criminal defendants are overwhelmingly male." *University of California Davis Law Review*, Winter 1993. Quoted by Cato Institute under the headline, "Its not easy being P.C."

Vouchers Proposed for Illinois Higher Education. Administrators at Illinois' 12 public universities — locked in a year-long battle with the state Board of Higher Education over program cuts — could avoid "micromanagement" of their efforts under a voucher system. If state funding of higher education went to students, not institutions, "Students and university administrators would be empowered to make decisions currently made by politicians and bureaucrats." Cecil E. Bohanon, Ph.D., "Funding Higher Education in Illinois," *Heartland Policy Study No. 60*, December 2, 1993, The Heartland Institute.

PRIVATIZATION

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Establishment Stymies Even the Simplest Reforms. When Pinckney, Michigan, contracted with a private firm to provide pupil bus service, it achieved — not the $1.2 million savings it expected — but a protracted legal battle instigated by the Michigan state teachers union. "We have come to a point in the history of government schools where any reform proposal will be bitterly opposed if it is perceived by the education establishment as a threat to its empire." Charles D. VanEaton, "Local Schools Have Become Empires," A *Heartland Perspective*, December 10, 1993, The Heartland Institute.

Survey Reports Social Service Privatization. The Reason Foundation has undertaken a survey of all agencies responsible for delivering social and health services in 50 states and in the country's 25 most populous counties. *Findings:* 94 percent of responding state agencies and 88 percent of county agencies make some use of privatization. Vouchers are used by at least 50 percent of state agencies (mostly for day care) and 43 percent of counties. Among the services most often privatized: drug/alcohol treatment, child welfare, elderly programs, vocational education and rehabilitation. William Eggers and Raymond Ng, "Social and Health Service Privatization," *Policy Study No. 168*, October 1993, Privatization Center of the Reason Foundation.

French Privatization Continues at Rapid Pace. In the seven months since the conservative government of Prime Minister Edouard Balladur has been in office, France has privatized one of its national banks and the pharmaceutical conglomerate Rhone-Poulenc. *Next in line:* an oil company, an insurance firm, another bank, and automaker Renault. "Privatization Notes," *The Government Union Critique*, December 10, 1993, Public Service Research Foundation.

Germany Agrees to Privatize Postal Business. The German government will spin off all three elements of its national postal business: its mail delivery service, a banking system, and a telecommunications arm. The government will maintain a 51 percent interest in all three firms, but will not be involved in day-to-day operations. "Privatization Notes," *The Government Union Critique*, December 10, 1993, Public Service Research Foundation.

Man Bites Dog; Property Taxes Refunded!

By Michael A. Finch

PALATINE, ILLINOIS — Big headlines are often made in small places. Crestwood, Illinois — population 12,000 — has been in the middle of a quiet public policy revolution for two-and-a-half decades. But now, the news is out: The privatization agenda that Crestwood Mayor Chester Stranczek is implementing is one that desperately needs to be enacted elsewhere.

Elected in 1969, Stranczek immediately went to work, eliminating the Water and Sewer Departments. In the 24 years since then, he has contracted out virtually everything, from bookkeeping to street maintenance to water and sewer repair. The village has four full-time police officers and no full-time firefighters. In fact, the entire village workforce consists of 17 people; next year it will be 14.

The village's entire budget is $1.5 million; other villages of its size average budgets of $5 to $6 million. Corporate taxes are only 44 cents per $100 of assessed valuation; most cities are at least $2 to $3. Next year, business licensing fees will be **ONE dollar** per year; other cities charge $100 and up.

In 1993, Crestwood returned to its residents a **26 percent refund** on 1992 Cook County property tax bills. The only catch? You had to live in your Crestwood home for at least one year. That's it. In all, 3,200 residents will receive refund checks ranging from $150 to $1,500. "By 1997 we plan to give back 100 percent refunds on property taxes," says Stranczek.

Critics say that the village must have lousy services, the schools must be underfunded, and the kids undereducated. In fact, Crestwood schools are among the best in the state, and Chicago residents would be quite happy to be "stuck" with the services that Crestwood has. Free garbage and recycling pick-up; residents over 55 get free snow plowing, free shuttle bus service, free lawncare, and free shrub trimming. And even with only four full-time police officers, Crestwood has one of the lowest crime rates in the Chicago area.

> You don't need years of study and politicking to know that privatization works.

How can Crestwood possibly do all this? Why don't other communities emulate Crestwood? They can do it because of the tremendous savings Mayor Stranczek has achieved through privatization. Every year Crestwood runs a significant budget surplus. As to the second question, Mayor Stranczek believes he has the answer. "It's all a question of politics. You're talking about a lot of patronage jobs. Neighboring mayors have told me, if they implemented these reforms, they would never get re-elected."

Re-elected or not, it's time for the rest of the country's mayors to stop whining about lack of funds. You don't need a weather man to know which way the wind is blowing. And you don't need years of study and politicking to know what works and what doesn't. Privatization works.

# # #

Michael A. Finch is Illinois Executive Director of The Heartland Institute.

Pure Privatization of Traverse City Waste. Since 1987, Traverse City, Michigan has contracted much of its trash pickup and waste disposal to private providers. In May 1990, the City Commission voted to put Traverse City out of the waste business entirely. The city's two "waste-packer" machines were sold to a private firm, along with the city's list of 2,200 residential customers. Six firms now solicit residents directly for the right to pick up their trash. "Traverse City Puts Innovation in Waste Contracting," *The Michigan Privatization Report*, Summer 1993, Mackinac Center for Public Policy.

Massachusetts Restricts Privatization. The Massachusetts legislature voted to over-ride Governor William Weld's veto of legislation that would inhibit the privatization of state services. The influence of public-sector unions is evident in the law: Among other provisions, it discourages the managers of state agencies from supporting privatization, by prohibiting them from accepting positions with private firms if services are ultimately contracted out. "Legislative Update," *The Government Union Critique*, December 10, 1993, Public Service Research Foundation.

Railway Privatization. Japan's JR East sold its first 600,000 shares of stock for $2.17 billion in summer 1993. The firm is profitable, even though it was saddled with $50 billion in debt from its parent, the government-owned Japanese National Railroad. **New Zealand** Rail was sold to a consortium that includes a U.S. rail firm and a U.S. investment firm. While not selling its ownership of the rail rights-of-way, **Argentina** is privatizing 16,000 miles of track by offering operating contracts to private bidders. Robert W. Poole, Jr., "Railways Privatized in Argentina, Japan, and New Zealand," *Privatization Watch*, October 1993, Reason Foundation.

REGULATION

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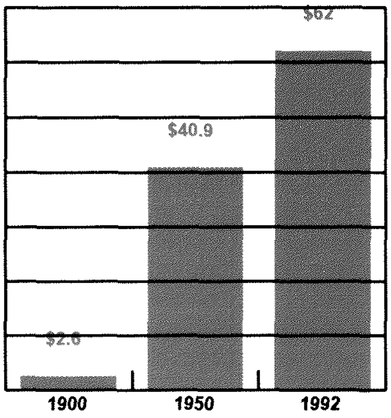
Cable Cure Worse than the Disease? In 1992, then-Senator Al Gore and his colleagues in Congress attempted to get a handle on escalating cable television rates by re-regulating the industry. *The result?* According to a recent FCC survey, 31 percent of the subscribers to 14 national cable companies saw their rates *rise* as a result of re-regulation. Re-regulation produced such complex pricing schemes in the other 11 national cable companies that the FCC has not yet been able to determine whether their rates rose or fell. Robert Crandall, "Cable Television: Reinventing Regulation," *The Brookings Review*, Winter 1994, Brookings Institution.

Federal Debt For a Family of Four
(thousands of constant 1990 dollars)



Who Defines "Fair"? If politicians and bureaucrats are permitted to determine who gets to say what on talk radio programs, "speech would be stifled and a litigation nightmare would ensue." Five panelists consider the proposed reincarnation of the Fairness Doctrine, concluding that it would have a chilling effect on freedom of speech. "The 'Fairness Doctrine': Pulling the Plug on Talk Radio," *The Heritage Lectures 471*, October 7, 1993, The Heritage Foundation.

TAXES

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To request a free directory of publications on Tax issues available through ***PolicyFax***, just call 510/208-8000 and choose item #3 from the main welcome message. Request topic directory 80.

Clinton Budget Plan Likely to Fail. Like other tax increases before it, the one included in President Clinton's Omnibus Budget Reconciliation Act of 1993 (OBRA '93) is likely to fail to achieve its revenue and deficit reduction targets. *Why?* OBRA '93 is based on ten myths about what taxes do, what taxpayers think about taxes, and how taxpayers behave when faced with tax increases. Alvin Rabushka, "Ten Myths About Higher Taxes," *Essays in Public Policy*, 1993, Hoover Institution.

Tax & Expenditure Limits No Panacea. While tax and spending limitations can "serve as a rallying point for taxpayers on public spending issues," they have unintended consequences that taxpayers must be wary of. *Watch out for:* growth in quasi-governmental taxing authorities, greater centralization of government at the state level (if the limits are local), loopholes that can never be plugged. *Lesson from*

Three Principles for Property Tax Relief. (1) Property tax relief should benefit taxpayers — not tax spenders. State aids to local *governments* rarely result in real tax relief. (2) Local taxpayers should be permitted to determine the level of public services — and hence the level of taxation — they want. This requires taxpayer approval of not only tax increase proposals, but also local government budgets and spending proposals. (3) Property tax relief should not turn into an entitlement program. Some people need relief more than others do. Peter Hutchinson and Janet Dudrow, "Property-tax system fatally flawed; it's unfair, unaccountable and expensive," *Minnesota Journal*, September 21, 1993, Citizens League.

California: "Spending limits cannot substitute for responsible actions by the legislature." "WRC conference looks at tax limits in CA, OR, WA," *Notebook*, September-October 1993, Washington Research Council.

Taxation Imposes, Rather than Controls, "Social Costs." The attempt to control "social costs" by government regulation and taxation actually *reduces* social welfare. "Many laws that are enacted in the name of reducing social costs are meant to limit the ways in which people are peaceably allowed to pursue what makes them happy. To the extent that this is done, goals that otherwise would be achieved cannot be pursued and, therefore, social welfare is reduced." Roy Cordato, "Social Costs, Public Policy, and Freedom of Choice," summarized by John Semmens, *Document Review*, 1993. Contact Semmens at the Arizona Department of Transportation, Transportation Planning Department, 206 South 17th Avenue #310B, Phoenix, AZ 85007-3213; phone 602/255-7333.

TRADE

Free Trade Has a Civilizing Effect. The recently concluded General Agreement on Tariffs and Trades (GATT) discussion, and the victory of NAFTA before that, remind us that "Commerce attaches [men] to one another through mutual utility. . . Through commerce, man learns to deliberate, to be honest, to acquire manners, to be prudent and reserved both in talk and action." Samuel Ricard (1704), quoted by David Warsh, "The civilizing currency of commerce," *Chicago Tribune*, December 19, 1993.

Free Trade Good Not Only for Jobs. Free trade affects not only producers, but *consumers* in the economy. By lowering tariffs and increasing competition, free trade lowers prices to consumers and improves the quality of goods available to them. "If candidates must employ populism to beef up their ballot-box performance, why appeal to employment? Everyone is a consumer. Everyone will save money from lower tariffs and increased competition. What could be more 'popular' than that?" Eric C. Banfield, "The Forgotten Consumer," *The Pragmatist*, June 1993.

Education

Saving Children, Not Institutions

By Jeffrey L. Flake

PHOENIX, ARIZONA — Education reform in Arizona has failed. Despite what we are told by the legislature and by the interest groups, we are no closer to meaningful reform than we were last year — or the year before that. The sooner we accept this fact, the more likely we will be to move toward meaningful reform in the future.

When you strip away the rhetoric there are really only two types of education reform: that which attempts to save institutions and that which attempts to save children. The problem is that we continue to focus on the former at the expense of the latter.

Institution-oriented reform assumes that institutions make better choices than families and individuals. Thus limited, this type of reform is confined to concepts like "decentralization," "school accountability," and "parental involvement." These catch-phrases may sound good, but they cannot even be defined, let alone applied.

Child-oriented reform, on the other hand, is manifested through such reforms as school choice. "Parental involvement" and "school accountability" come naturally as a result of choice and competition.

Advocates of institution-oriented reform like to say that supporters of school choice are "against public education." This is nonsense. By seeking to remove the public school monopoly on tax dollars for education, and thus ensure that all children have access to the best education available, **school choice reaffirms a community's commitment to public education.**

In the past, institution-oriented reformers have attempted to dismiss school choice on constitutional grounds. The truth is that school choice has functioned in higher education, through such programs as the G.I. Bill and Pell Grants, for more than a half-century. Likewise, the argument that school choice only works for rich kids has run headlong into the fact that nearly every school choice plan under consideration in this country is limited to low-income children.

> **Education reform today fails because it focuses on institutions, not children.**

As public support for school choice becomes more evident, there are indications that some institution-oriented reformers see choice as inevitable. However, before allowing school choice these reformers insist that we must first "shore up" the public schools so that they can compete with private schools.

Aside from what this language says about the institution-oriented nature of the reforms being pursued, it is illogical. If public schools are ever to be able to compete with private schools, they must be *allowed* to compete!

Before we endure another legislative session and end up right where we started, we should ask ourselves, and our elected officials: Are we trying to save institutions or children? If the question is answered honestly, perhaps we might actually get somewhere next time.

# # #

Jeffrey L. Flake is with the Barry Goldwater Institute for Public Policy Research in Phoenix, Arizona.

NAFTA Likely to *Benefit* American Workers. "NAFTA will double both the growth rate of Mexico's overall economy and the growth rate of its wages... Mexican workers and producers, who are already enthusiastic customers of U.S. products (70 cents of every dollar spent on imports goes for goods produced in the United States), should soon be buying even more from U.S. exporters." *Interesting twist:* Higher wages in Mexico also will mean less immigration out of the country, *keeping Americans employed* in the unskilled jobs often filled by low-wage immigrants. Nora Lustig, "NAFTA: Doing Well by Doing Good," *The Brookings Review*, Winter 1994, Brookings Institution.

Mexico Offers Tremendous Economic Opportunities for U.S. With the passage of NAFTA and recent changes in Mexico's own regulations of foreign investment, U.S. firms have been given great opportunities to strengthen their own bottom lines *and* aid in the development of a close neighbor. *Facts:* Over two-thirds of the 754 activities into which the Mexican economy is classified are now open to 100 percent foreign investment. Already, some 9,000 Mexican companies benefit from foreign capital participation — most of it coming from U.S. investors. "An Outlook of New Investment Opportunities in Mexico," *Newsletter No. 3*, October 1993, Casas Coopers Consultores (an affiliate of Coopers & Lybrand).

TRANSPORTATION

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Novel Approach to Freeway Toll Pricing. Converting a tollway's high-occupancy vehicle (HOV) lanes to HOT (high occupancy/toll) lanes could be a better way to reduce highway congestion. Like HOVs, HOT lanes would give free passage to three-occupant vehicles — but others could also use HOT lanes if they were willing to pay a higher toll for the privilege of moving through the tollbooth faster. Southern California has two HOT projects under way. Gordon J. Fielding and Daniel B. Klein, "High Occupancy/Toll Lanes: Phasing in Congestion Pricing a Lane at a Time," *Policy Study No. 170*, November 1993, Reason Foundation.

Private Transit Companies Here to Stay. The average private transit firm in Chicago has been in business for 38 years (the oldest for 140 years!); while some public transit companies in Chicago began as private operators, many did not begin operation until after the Urban Mass Transit Act of 1964. "Misconceptions About the Private Transit Industry," *MTA Monitor*, December 1993. Contact the Metropolitan Transportation Association, 2021 Midwest Road #300, Oak Brook, IL 60521-1359; phone 708/954-5997, fax 708/993-2503.

WELFARE

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Taking Full Advantage of Housing We Already Have. Relaxing zoning restrictions to permit "accessory uses" of current housing stock — guest cottages on single-home lots, garage apartments, and small one-room retail establishments — would bring many benefits. *For example:* increased availability of inexpensive housing for the elderly, minorities, and lower-income persons — especially in suburbs where such diversification of the population would be beneficial; economic development opportunities in marginal, low-income suburbs. George W. Liebmann, "How Zoning Laws Break Up Families," *Cato Policy Report*, November/December 1993, Cato Institute.

More Welfare Reform Needed in Michigan? On October 1, 1991, legislation signed by Michigan governor John Engler cut off $250 million in general assistance (GA) benefits to 83,000 able-bodied adults in the state. An estimated 80 percent of these "clients" had never held a job in their lives. *The good news:* By April 1993, 34 percent of all terminated GA clients had been employed at some point during the year, at least part time. *The not-so-good news:* Most former GA clients, though no longer receiving cash grants, still receive food stamps, basic medical care, or both from the state. Lawrence W. Reed, "Michigan's Welfare Abolitionist," *Policy Review*, Fall 1993, pages 65-69, The Heritage Foundation.

Losing the War on Poverty. In 1968, four years after the start of Lyndon Johnson's "War on Poverty," 13 percent of Americans were living below the poverty line. Today — roughly 25 years later — the poverty rate remains at 13 percent. *What's the problem?* "People stay poor because the welfare system destroys their incentive to work." *What's the solution?* Responsible behavior — work, education, refraining from child-bearing — should be required of welfare recipients. Randall G. Holcombe, "The Welfare State, Poverty, and Economic Opportunity," *Backgrounder*, 1993, The James Madison Institute.

OTHER TOPICS

Getting Out the Vote. Political candidates and state legislators seeking re-election would do well to take a stand on public policy issues important to the owners of small businesses. *Survey:* While 19 percent of all registered Americans failed to vote in 1992, just 5 percent of registered Americans who were self-employed failed to vote. *A Small Business Primer*, August 1993, The NFIB Foundation.

Sound Advice for Entering the Policy Debate. "Be prepared." "Never lie." "Be brief, clear, and honest, but be yourself." Wisdom from the Boy Scouts' *Handbook*? No ... just valuable tips to help you convey your message in the media. While aimed at health care professionals, this article, written by a television news veteran, is must-reading for anyone involved in the public policy arena. Danielle Bina, "It's Time for Action," *Private Practice*, October 1993. Contact Editor Brian Sherman at P.O. Box 890547, Oklahoma City, OK 73189-0547; phone 405/692-4466.

Nine states — CT, NJ, NY, MA, CA, IL, MD, NV, and FL — will lose the most from the Clinton tax bill. These states can expect to lose $75 billion — an average $780 for every man, woman, and child in these state. Yet 14 of the 18 congresspersons representing these states voted in favor of the bill.

Exposing the "Animal Rights" Agenda. "While publicly professing a desire to improve the treatment of animals, the animal rights movement is in fact an anti-animal use campaign." *What they're really after:* An end to the use of animals in essential medical research; an end to hunting, trapping, and fishing; and an end, frankly, to the breeding and owning of animals as pets. Daniel T. Oliver, "Animal Rights: The Inhumane Crusade," *Studies in Organization Trends* 7, 1993, Capital Research Center.

Davis-Bacon Act Faces Legal Challenge. In November 1993, the Washington-based Institute for Justice filed suit against Labor Secretary Robert Reich challenging the 1931 Davis-Bacon Act. Plaintiffs in the suit are five minority contractors and three public housing tenant groups. *Their complaint?* "The law has a racist pedigree that continues to infect its enforcement today. . . . The law [gives] large, unionized firms a huge competitive advantage" over minority firms, which tend to be small and non-unionized. "Institute for Justice Takes on Racist Federal Wage Law," *Liberty & Law*, Fall 1993, Institute for Justice.

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Dosages May Be "Toxic," But Chemicals Aren't

By Aaron Wildavsky

Animal cancer tests cannot come close enough to be valid sources of evidence in predicting human cancer. Carcinogens — suspected cancer-causing chemicals — in large and continuous doses appear unfriendly to mammals, but it is *dosage* that matters. Extrapolations from animals dosed at very high levels to humans exposed to far smaller levels makes regulatory sense only if the goal is to provide a spectacularly large margin of safety to the public.

To be sure, given the biased conditions in animal cancer testing, one may wonder if the results produced are indeed *meaningless*, since humans will rarely ever encounter the same intense and huge dosage of suspected carcinogens as is given to animals in laboratories.

To extrapolate from mammals used in testing to people exposed only to trace elements, a number of basic assumptions must be made. Three such assumptions are particularly important:

■ First, the biology of mammals used in tests is assumed to be sufficiently similar to that of humans to justify extrapolation.

■ Second, an adjustment must be made for the huge population size of people compared to other mammals.

■ And third, the vast difference in dosage given to animals must be taken into account.

There are simple ways to refashion regulations on suspected carcinogens.

First, it would be better if we discussed carcinogenic or toxic "doses" of chemicals, rather than calling the chemicals themselves "carcinogenic" or "toxic."

Second, we should recognize that there is no guarantee that any chemical dose will be "absolutely safe." But we can make good guesses that a particular dose will be insignificant compared to other potential disease factors and, to be sure, to the doses administered to lab animals day in and day out.

> If all we know about cancer comes from animal testing, we know very little that's meaningful.

Third, it is time to recognize the limited public health benefits of eliminating tiny amounts of synthetic chemical residues. The human defense system has an uncanny ability to deal with the low levels of carcinogens from the ordinary exposure people get every day to natural chemicals in their diet.

Perfection is not for this world. People in industrial democracies should accept the imperfections they know, while striving to do better — rather than focus on the imperfections they can hardly imagine from utterly invalid animal testing.

# # #

Aaron Wildavsky, formerly a professor of political science and philosophy at the University of California at Berkeley, is the author of *Searching for Safety* (Transaction Books, 1988). Dr. Wildavsky died in early September 1993.

See pages 38-39 for publishers' addresses and phone numbers.

ContactsContactsContactsContactsContactsContactsContactsContacts

Most of the research summarized in the *Research Report* (pages 21-37) can be ordered from the organizations listed below. This list features organizations that conduct and disseminate market-oriented research and commentary on state and local public policy issues.

Alabama Family Alliance, P.O. Box 59692, Birmingham, AL 35259, 205/870-9900

American Institute for Economic Research, Great Barrington, MA 01230

American Studies Institute, Harding University, Station A, Box 899, Searcy, AR 72143, 800/477-4407, (fax) 501/279-4600

American Legislative Exchange Council , 214 Massachusetts Avenue NE #400, Washington, DC 20002, 202/547-4646, (fax) 202/547-8142

Andrew Jackson Institute, 2704 Twelfth Avenue South, Nashville, TN 37204, 615/383-8284

Arizona Institute, 2700 South Woodlands Boulevard, Suites 300-329, Flagstaff, AZ 86001, 602/526-2597

Atlantic Legal Foundation, 205 East 42nd Street - 9th Floor, New York, NY 10017, 212/573-1960

The Atlas Economic Research Foundation, 4084 University Drive #103, Fairfax, VA 22030-6812, 703/934-6969, (fax) 703/352-7530

The Barry Goldwater Institute for Public Policy Research, 201 North Central, Phoenix, AZ 85004, 602/256-7018

The Blum Center for Parental Freedom in Education, Marquette University, Milwaukee, WI 53233, 414/288-7040, (fax) 414/288-3170

California Public Policy Foundation, 14263 Moorpark #4, Sherman Oaks, CA 91423, 818/841-5210

Capital Research Center, 727 15th Street NW - 8th Floor, Washington, DC 20005-1599, 202/737-5677, (fax) 202/737-5692

Capitol Resource Institute, 1211 H Street #A, Sacramento, CA 95814-1912, 916/731-5200

Cascade Policy Institute, 813 SW Alder Street #707, Portland, OR 97205, 503/242-0900, (fax) 503/242-3822

Cato Institute, 1000 Massachusetts Avenue NW, Washington, DC 20001, 202/842-0200, (fax) 202/842-3490

Center for Independent Thought, 942 Howard Street, San Francisco, CA 94103, 415/541-9780

The Center for Individual Rights, 2300 North Street NW - 6th Floor, Washington, DC 20037, 202/663-9041 or -9042

Center for the New West, 600 World Trade Center, 1625 Broadway, Denver, CO 80202, 303/572-5400

Center for the Study of American Business, Washington University - Box 1208, St. Louis, MO 63130, 314/935-5630

Center for the Study of Market Alternatives, 2285 University Drive, Boise, ID 83706, 208/368-7811

Center of the American Experiment, 45 South 7th Street, Minneapolis, MN 55402, 612/338-3605, (fax) 612/338-3621

Citizens Against Government Waste, 1301 Connecticut NW #400, Washington, DC 20036, 202/467-5300

Citizens for a Sound Economy , 1250 H Street NW #700, Washington, DC 20005-3908, 202/783-3870, (fax) 202/783-4687

Citizens for Educational Choice, P.O. Box 405, Needham Heights, MA 02194, 617/444-7545

Citizens for the Environment, 1250 H Street NW #700, Washington, DC 20005-3908, 202/783-3870

Citizens League, 708 South Third Street #500, Minneapolis, MN 55415, 612/338-0791

The Claremont Institute, 250 West First Street #330, Claremont, CA 91711, 909/621-6825, (fax) 909/626-8724

The Commonwealth Foundation for Public Policy Alternatives, 600 North Second Street #300, Harrisburg, PA 17101, 717/231-4850

Competitive Enterprise Institute, 1001 Connecticut Avenue NW #1250, Washington, DC 20036, 202/331-1010, (fax) 202/331-0640

Congressional Institute, Inc., 316 Pennsylvania Avenue SE #403, Washington, DC 20003-1147, 202/547-4600

Connecticut Policy and Economic Council, Inc., 21 Lewis Street, Hartford, CT 06103, 203/527-8177, (fax) 203/246-9790

Consumer Alert, 2700 South Quincy Street #210, Arlington, VA 22206, 703/845-8802, (fax) 703/845-8920

Consumer Alert, P.O. Box 3348, Modesto, CA 95353, 209/524-1738

Consumers Research, Inc., 800 Maryland Avenue NE, Washington, DC 20002, 202/546-1713

Council for Affordable Health Insurance, 112 South West Street, 4th Floor, Alexandria, VA 22314, 703/836-6200, (fax) 703/836-6550

The Educational Excellence Network, 1112 Sixteenth NW #500, Washington, DC 20036, 202/785-2985

Educational Freedom Foundation, 110 East Rose, St. Louis, MO 63119

The Empire Foundation for Policy Research, 130 Washington Avenue #1000, Albany, NY 12210, 518/432-4444

Ethan Allen Institute, RFD 1, Concord, VT 05824, 802/695-2555

Evergreen Freedom Foundation, P.O. Box 552, Olympia, WA 98507, 206/956-3482

Family Research Council, 700 Thirteenth Street NW #500, Washington, DC 20005, 202/393-2100

The Foundation for Economic Education, Irvington-on-Hudson, NY 10533, 914/591-7230

Foundation for Research on Economics and the Environment, 502 South 19th #1, Bozeman, MT 59715, 406/585-1776

The Fraser Institute, 626 Bute Street, Second Floor, Vancouver, B.C., V6E 3M1, 604/688-0221, (fax) 604/688-8539

The Free Congress Research and Education Foundation, 717 Second Street NE, Washington, DC 20002, 202/546-3000

Free Market Foundation, P.O. Box 741777, Dallas, TX 75374-1777, 214/348-2801

Georgia Public Policy Foundation, 2900 Chablee-Tucker Road - Building 6, Atlanta, GA 30341, 404/455-7600

Golden State Center for Policy Studies, 2012 H Street #101, Sacramento, CA 95814, 916/446-7924, (fax) 916/446-7990

The Heartland Institute, 800 East Northwest Highway #1080, Palatine, IL 60067, 312/427-3060, (fax) 312/427-4642

The Heartland Institute in Michigan, 615 Griswold #1509, Detroit, MI 48226, 313/961-1950, (fax) 313/961-1420

The Heartland Institute in Wisconsin, P.O. Box 53, Watertown, WI 53094-0053, 414/261-1430

The Heritage Foundation, 214 Massachusetts Avenue NE, Washington, DC 20002, 202/546-4400, (fax) 202/544-2260

Hillsdale College, Hillsdale, MI 49242, 517/437-7341, (fax) 517/437-0160

Hoover Institution, Stanford University, Stanford, CA 94305-6010, 415/723-3373

Independence Institute, 14142 Denver West Parkway #101, Golden, CO 80401, 303/279-6536

Independent Institute, 134 Ninety-Eighth Avenue, Oakland, CA 94603, 510/632-1366

Indiana Policy Review Foundation, 320 North Meridian #615, Indianapolis, IN 46204, 317/236-7360, (fax) 317/236-7370

Institute for American Values, 1841 Broadway #211, New York, NY 10023,

Institute for Contemporary Studies, 234 Kearny Street, San Francisco, CA 94108, 415/981-5353

Institute for Humane Studies, George Mason University, 4400 University Drive, Fairfax, VA 22030, 703/934-6920

Institute for Justice, 1001 Pennsylvania Avenue NW #200 - South, Washington, DC 20004-2505, 202/457-4240

Institute for Policy Innovation, 250 Stemmons #306, Lewisville, TX 75067, 214/219-0811

The Institute on Religion and Public Life, 156 Fifth Avenue #400, New York, NY 10010, 212/627-1985

The James Madison Institute for Public Policy Studies, P.O. Box 13894, Tallahassee, FL 32317-3894, 904/386-3131,

The John Locke Foundation, 6512 Six Forks Road #203B, Raleigh, NC 27615-6525

Laissez Faire Institute, 828 North Poplar Court, Chandler, AZ 85226, 602/940-9824

Landmark Legal Foundation, 1006 Grand Avenue - 15th Floor, Kansas City, MO 64106, 816/474-6600

Law and Economics Center, University of Miami, P.O. Box 248000, Coral Gables, FL 33124, 305/284-6174

Lincoln Legal Foundation, 100 West Monroe #1600, Chicago, IL 60603, 312/606-0951

Mackinac Center for Public Policy, 119 Ashman Street, P.O. Box 568, Midland, MI 48640, 517/631-0900, (fax) 517/631-0964

Manhattan Institute, 52 Vanderbilt Avenue, New York, NY 10017, 212/599-7000

Media Research Center, 113 South West Street, 2nd Floor, Alexandria, VA 22314, 703/683-9733, (fax) 703/683-9736

The Mid-America Legal Foundation, 20 North Wacker Drive #2263, Chicago, IL 60606, 312/263-5163

Mountain States Legal Foundation, 1660 Lincoln Street #2300, Denver, CO 80264, 303/861-0244

National Center for Policy Analysis, 12655 North Central Expressway #720, Dallas, TX 75243, 214/386-6272

National Center for Public Policy Research, 300 I Street NE - #3, Washington, DC 20002, 202/543-1286

National Chamber Foundation, 1615 H Street NW, Washington, DC 20062, 202/463-5552

National Inholders Association, P.O. Box 400, 30218 NE 82nd Avenue, Battle Ground, WA 98604, 206/687-3087

National Rifle Association of America, 1600 Rhode Island Avenue NW, Washington, DC 20036, 202/828-6377

National Taxpayers Union, 325 Pennsylvania Avenue SE, Washington, DC 20003, 202/543-1300

Nevada Policy Research Institute, P.O. Box 20312, Reno, NV 89515-0312, 702/786-9600

The New England Center for Political Studies and Research, 47 Tumbleweed Road Springfield, MA 01109-1535

New England Legal Foundation, 55 Union Street, Boston, MA 02108, 617/367-0174

New Jersey Citizens for a Sound Economy, P.O. Box 339, Lambertville, NJ 08530, 609/397-5900

New Mexico Foundation for Economic Research, P.O. Box 1216, Albuquerque, NM 87103, 505/243-5400, (fax) 505/243-1700

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Pacific Legal Foundation, 2700 Gateway Oaks Drive #200, Sacramento, CA 95833, 916/641-8888

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Pattern Research, P.O. Box 9845, Denver, CO 80209, 303/778-0880

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Pioneer Institute, 85 Devonshire Street, Boston, MA 02109, 617/723-2277, (fax) 617/723-1880

Political Economy Research Center, 502 South 19th Street #211, Bozeman, MT 59715, 406/587-9591

The Pragmatist, P.O. Box 392, Forest Grove, PA 18922

Privatization Research Organization, Baruch College/City University of NY, 17 Lexington Avenue, New York, NY 10010

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Public Interest Institute, Iowa Wesleyan College, Mt. Pleasant, IA 52641, 319/385-3462

Public Service Research Foundation, 1761 Business Center Drive #230, Reston, VA 22090, 703/438-3966

Reason Foundation, 3415 S. Sepulveda Boulevard #400, Los Angeles, CA 90034, 310/391-2245, (fax) 310/391-4395

Resource Institute of Oklahoma, 28 Northwest Seventh Street, Oklahoma City, OK 73102, 405/239-6700

Rockford Institute, 934 Main Street, Rockford, IL 61103, 815/964-5053

Rose Institute for State and Local Government, Claremont McKenna College, Pitzer Hall, Claremont, CA 91711, 714/621-8201

Sequoia Institute, 3479 Beaver Ford Court, Woodbridge, VA 22192, 703/590-0496

South Carolina Policy Council, 1419 Pendleton Street, Columbia, SC 29201, 803/779-5022

Southwest Policy Institute, 2403 NW 39th Street #200, Oklahoma City, OK 73112-8769, 405/521-9439

Tax Foundation, 1250 H Street NW #750, Washington, DC 20005-3908, 202/783-2760, (fax) 202/942-7675

Texans for an Informed Public, 1716 Magnum Street #308, Houston, TX 77092, 713/686-0400

Texas Public Policy Foundation, 8122 Datapoint Drive #910, San Antonio, TX 78229, 210/614-0080

Urban Policy Research Institute, P.O. Box 3647, Dayton, OH 45401, 513/848-7199

Utah State University, Institute of Political Economy, Political Science Department, Logan, UT 84322-0725, 801/750-2064

Utah Taxpayers Association, 1578 West 1700 Street #105, Salt Lake City, UT 84104

Washington Institute for Policy Studies, 999 Third Avenue #1060, Seattle, WA 98104, 206/467-9561, (fax) 206/467-0910

Washington Research Council, 906 South Columbia #350, Olympia, WA 98501, 206/357-6643, (fax) 206/754-2193

Washington Legal Foundation, 1705 N Street NW, Washington, DC 20036, 202/857-0240

Wisconsin Policy Research Institute, 3107 North Shephard Avenue, Milwaukee, WI 53211, 414/963-0600

Wyoming Heritage Society, 139 West Second Street #2B, Casper, WY 82601, 307/265-5462

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